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IN THE NEXT ISSUE

CAN ENGLISH MONEY OUTLAST GERMAN FOOD AND OIL?

by V. L. Horoth

Visualize a temporary stalemate, with Hitler's fists sinking up to the wrists in Churchill's midriff but failing to bring him down.

Then Germany will put on her big drive next year, they say. But can she last, with the blockade denying her food and oil?

Or England will perfect her defenses during the winter with planes and equipment bought from the U. S. But how long will her money last at this rate, what are her other assets?

What are the facts? And how do they affect our position?

RISE OR PAUSE IN 4th QUARTER BUSINESS?

by Ward Gates

The jinx on all recent business pickups has been rushing orders ahead to make sure of deliveries and beat a price rise. It has happened again. If overdone this time, the arms boom may have to wait for another setback such as we had this spring. Here is the evidence on both sides—and a conclusion you may disagree with but must consider in your own affairs.

NEW CYCLICAL LEADERS

by John Lloyd

The six-day bike race goes on; it's hard to tell who's lapping the field, heading for the new records and the prize money, unless you put on an intensive search like this one. The industries and companies discussed are kicking aside the records of last year, of 1937—and of 1929! They are the leaders who prove it, not by size alone but by growth and rewards to their stockholders.

THE CHEMICALS

War Babies . . . Armament Babies . . . Peace Babies

by Jesse Hipple

The defense program depends on industry and industry on the chemicals. In the last war they hardly existed. Today they are in the key position, making the clinching demonstration of their front rank in the economy.

Do you know them individually and collectively as you should?

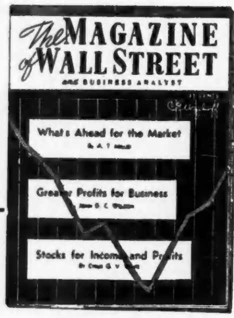
ALSO—

Six Opportunities in Stocks Priced 3 to 5 Times Earnings

by Stanley Devlin

Shades of W. C. Durant! He believed in a company when it was earning nothing. Here are these issues showing profits of, say, $6 a share this year, selling at perhaps 27. It can't last. Either the earnings must fall off or the prices must go up. Even if you believe a little of each will happen, you'll be interested in seeing the actual cases.

HOLDING THE RIGHT STOCKS?



—For Coming Phases of a Changed Economy?

—For Income? *—For Safety?*

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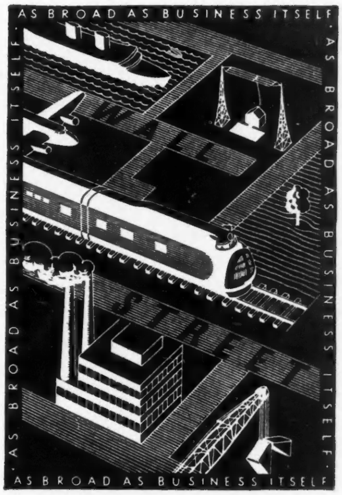


The Trend of Events

FOES WITHIN . . . The strength or weakness of a nation is more than a matter of guns and airplanes and ships and men. Hitler and his fifth columnists are not the only foes of democracy. France fell in six weeks as much because France was weak as because Germany was strong. France was weak primarily because her democratic system had degenerated into a politician's babel. The breed of statesmen had all but vanished.

What about our own situation? To say the least, it is not edifying to watch many members of Congress shamelessly play politics as vital issues affecting national defense await action. Here are a few samples:

For weeks placement of national defense contracts had been hampered as business men awaited Congressional action on the plant amortization provision of the excess profits tax. When the bill was passed it developed that a string had been written into it at the last minute—a string explicitly opposed by the defense commission. Again, Senate amendment of the conscription bill to permit the President to commandeer plants was a grandstand play—merely affirming the accepted principle of condemnation with just recompense, but hastily written without safeguards for press or radio. A commandeering clause in another bill had been repealed only a few weeks before.

A Senate amendment of the latest defense appropriation bill tightens the Vinson-Trammell Act profit limitations on naval orders and army aircraft orders, but the House excess profits tax bill suspends this act on the valid theory that the tax bill will adequately limit all profits.

In short, the amortization plan is hung up on a catch clause; commandeering clauses are repealed and re-enacted; the Vincent-Trammell Act profit limitations, which were reduced on June 28, will be suspended if the tax bill goes through, will be restored to their pre-June 28 rates if the appropriations bill goes through and will be applied to all national defense orders if the conscription bill goes through!

This is nothing short of legislative bedlam. If any business man can figure out where he stands today in calculating a bid on any national defense contract he is a genius and a seer.

NOBODY'S FAULT . . . The one thing the country wants most earnestly to know is how the defense program goes. Are we any nearer the safety that only military strength can bring, and if so, what is the progress to date? Ask Congress, ask the National Defense Advisory Commission, Secretary Stimson, the President. The only answers they can give are more confusing than clarifying.

Apparently this is nobody's fault; a simple and con-

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS · 1907 — *"Over Thirty-Two Years of Service"* — 1940

clusive picture is impossible. Obviously, to talk in terms of dollars appropriated is beside the point when it is actual production that counts. Even dollar figures on contracts awarded fail to indicate just what is to be forthcoming and, more important, when. Treasury statements of daily disbursements have the advantage of precision, but they include maintenance of the military forces as well as payment for new equipment. Such items as R. F. C. loans for new plant construction, which may be steps forward, are not yet guns or planes or tanks.

Even when the President gives the most satisfactory statement to date on the number of planes in production, on contract, or being built under "letters of intention" (10,015 is the figure), the actual information conveyed is meager. The difference between a training plane and a bomber is more than a couple hundred thousand dollars—it may amount to two years of valuable time. A breakdown furnished by the Defense Commission applies only to the craft already under contract and distinguishes only between combat and training ships. And of course, the fragmentary information on plane construction is much more definite than that on other equipment almost equally important. For the present it is regrettable but necessary that we simply take the word of those in charge on the satisfactory speed of the program and its constant acceleration.

REPRIEVE FOR GOLD . . . Italy's distinguished economist, Mario Mazzuchelli, has described a secret meeting between the Axis powers to settle the fate of gold in Europe. Since Reich Minister of Economy Walther Funk headed the German delegation, it might be thought a foregone conclusion that the metal would hear its death knell rung. (Dr. Funk had only recently asserted that Europe and the rest of the German-dominated world could function perfectly with currency based on production rather than on the archaic gold standard.) But according to Signor Mazzuchelli the meeting agreed that Germany and Italy will return to the gold standard immediately after the war is over. "One can prophesy," he says, "that the mark and the lira will again be based on gold, which all the world accepts and which, besides being a world-wide money, is a means of thrift, capitalization and reserves."

Signor Mazzuchelli also estimates the gold stocks of Germany and Italy at 15,000,000,000 lire and 2,500,000,000 lire, respectively, after the "absorption" by the Nazis of the stocks in invaded countries. One can detect a note of wistfulness here, as Italy realizes how little chance she has had to do any absorbing so far in her adventure. But if there are any crumbs of truth in the estimates, they supply one more reason why the Germans will think twice before junking the yellow metal.

RAIL OUTLOOK . . . Carloadings have just made a new high for 1940, the largest since last November. For the year to date the aggregate is 10 per cent above the same period of 1939 and 20 per cent above 1938. Operating results of the carriers have made less impressive gains, partly because of larger outlays for maintenance and increased transportation expenditures, partly because of growing reserves for taxes. Some of the more prosperous lines will be affected by the excess profits tax now being considered, most of the others by the jump in normal rates. Nevertheless, it is a sign of fair weather for the transportation industry when income taxes assume a major place among its problems.

Helping along in the better feeling within the industry is the prospect that the Wheeler-Lea "omnibus" transportation bill may soon become law. Revived and passed by the House, only the Senate and the President remain as hurdles—neither of them very low ones. The bill is by no means all that the carriers wanted and for that reason may stand a better chance of enactment than one perfect in their eyes. In fact, its principal contribution is an acknowledgment that the whole transportation problem deserves examination, so that the new competition which has sprung up within the industry can under no circumstances break the backbone of the system. In time of war, or hasty preparation for war, the railroads are all-important.

NATIONAL INCOME . . . If figures mean anything, this country is enjoying a more prosperous year than any since 1930. National income for the first seven months is placed at $41.6 billions by the Department of Commerce, a rate which would work out annually at close to $72 billions. However, there is an uptrend to be considered, so the projection calls for a faster pace in the remaining months which will bring the full year's income to $73 billions against 1939's $70 billions and 1930's $74.2 billions.

The comparison with the first year of the big depression is in one respect a tragic one. In the last decade we have gone through a dip and recovered most of the lost ground, so far as money income goes. Transmutting the dollars into what they will buy of the necessities and luxuries we work for, we find ourselves apparently better off because of the lower price level. Yet the population of the country has grown by ten million in the decade, while we have acquired a standing army of 8,500,000 unemployed. The national income is not only spread thinner because over a greater number of people, but the spreading is accomplished to a greater extent by taxing it into the Government funnel and out to the unfortunate 8,500,000.

Some economists have long persisted in the belief that an economy runs smoothly only when consumption is brought up to equal production by diverting manpower to large-scale military purposes. True or not, the theory is about to be tested for the United States. The first effect should be a move toward the $80 billions goal in national income, or higher.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 606. The counsel embodied in this feature should be considered in connection with all investment suggestions elsewhere in this issue. —Saturday, August 31, 1940.

As I See It!

BY CHARLES BENEDICT

ENOUGH ROPE

Up to the Battle of Britain, Germany has pretty much had her own way in dealing with the weak and unprepared and those nations destroyed from within by traitorous fifth columnists. But the situation is proving to be quite different with Britain, for the English are offering strong resistance and returning blow for blow with unswerving determination.

It is becoming increasingly evident that Hitler, already well behind the previously boasted schedule of Nazi conquest, has met with a serious check in his air campaign against the British Isles; and that he has not merely paused to prepare plans for a still more intense bombardment, or actual invasion, as Nazi spokesmen suggest.

Whatever the numerical superiority of the Nazi air forces, the qualitative superiority of British pilots and of British and American planes is setting Hitler back on his heels. Confidential reports to Washington on the recent air activity over Britain have it that results are "almost unbelievably encouraging." Eye-witness accounts of American observers in England prove that Nazi claims of major bomb damage to essential ports, air fields, factories and other military objectives have been wildly exaggerated.

Apart from everything else, the Germans' own admission that waves of British bombers are able to raid Berlin for hours at a time—as readily as the Nazi planes can raid London—is positive proof that Hitler has not gained mastery of the air. What a shock this must be to the German people! They had been assured by their masters that German planes could wipe London off the face of the earth but that British planes could never penetrate the superlative anti-aircraft defenses in and around Berlin!

It is most significant that for the first time the German propaganda is trying to alibi military failure to the German people and the outside world. Thus it is explained that successful bombing of Berlin is due to the fact that a secret type of varnish makes British planes invisible in the glare of searchlights so that German anti-aircraft gunners can't see their targets! It's a good story, which the British say is the bunk. True or false, it's an alibi that will not carry any reassurance to German men and women as they cower in shelters and listen to bomb explosions. The Germans have always loved to dish it out. They don't like to take it.

The Italians also are forced to admit to their people that British bombers are getting through and doing considerable damage to the highly vulnerable industrial cities in the north, especially Turin and Milan. Mussolini will prove to be Hitler's Achilles' heel—the rabbit in a leopard's skin. He has backed down in his threats against Greece, and his road to conquest in Africa is getting rougher rather than smoother. The governors of French Equatorial Africa and the Cameroons have swung over to Britain, providing a corridor through which Italian Libya may be *(Please turn to page 644)*

Wide World Photo.

Ball-bearing factory near Turin, where Italians are getting a dose of British bombing.

Market For The Next Fortnight

The current technical action is definitely favorable but risk of missing further rally is accompanied by continuing risk of unsettlement on foreign news shocks. We incline to the conservative course, deferring new buying recommendations.

By A. T. MILLER

For many weeks the consensus among those waiting for an inviting opportunity to buy stocks for appreciation has been: (1) the market will be a buy on news which indicates convincingly that Hitler can not conquer England this summer or (2) stocks can be bought at a bargain level in a severe reaction if and when England is definitely subjected.

It would be virtually unprecedented if either part of so pat a formula worked out in anywhere near complete accordance with the preconceived pattern.

It is highly improbable that we will wake up some morning and find a newspaper headline which reveals just how the Battle of England is going to come out. If the British can continue to hold off the German air assault as successfully as they seem to be doing today, more and more investors and traders from day to day will decide to act on the belief that the war will continue and the odds against German victory will increase.

Hence, if the foreign news imposes no more formidable barriers than those recently encountered, an extension of irregular advance is more than possible over the near term; and the market may be substantially higher before evidence of a significant change in the war outlook is either definite or clear-cut. It is also distinctly possible that a sharp market rally, rather than clarifying war news, can do more than anything else to fortify optimism regarding the British prospect.

Certainly the course of the market since mid-August has been all that anyone could ask for in a period of recurrent, large scale bombings of English centers, including London. At this writing both the industrial and rail averages have pushed through former recovery highs for the entire period since the May-June lows were made, and this advance has been accompanied by substantial expansion of volume.

Reflecting somewhat more hopeful sentiment all around, spot and futures commodity indexes have rallied from the year's lows of mid-August. During the past week the corporate bond market also took a marked turn for the better.

Although the stock averages did not climb through previous resistance levels until last Friday, there had been encouraging earlier indications of individual strength in a considerable number of issues. It had been a long time since any "out-riders" had demonstrated ability to respond to favorable news of any kind. Large earnings, big orders, increased dividends were generally ignored.

To cite but a few examples which show at least a tentative change of mood, all occurring before the recent rally developed any breadth, there was: response of Canadian issues to news of U. S.-Canadian defense cooperation, upward spurt in Bullard on release of large earnings figures, favorable response of the long dormant building shares to improvement in construction contract awards, brisk rally of United Aircraft, recipient of a huge Government order for aircraft engines, rise of South Porto Rico Sugar on an increased dividend. There have been various others, not only among equities but even more so among preferred stocks.

On the other hand, despite definitely favorable technical action for some days past and despite probability of additional advance in the immediate future, nobody can guarantee that the market skies are all clear or that risk has been eliminated from purchase for appreciation. The market is still thin and still sensitive to changes in the character of the foreign news. Although there has been increasing justification for skepticism that Hitler can either gain early mastery of the British skies or dare risk invasion at this late date, the time element as August draws to a close does not yet preclude further German efforts—efforts perhaps of sensational intensity.

Suggestions of possible Balkan conflict between Russia and the Axis powers constitute, in our opinion, at least part of the foundation for better market action currently, the reasoning being that any such development would reduce the Nazi threat to England. But the reported agreement among Germany, Italy, Hungary and Roumania that Roumania shall immediately hand over specified territory to Hungary and that German troops shall occupy the Roumanian-Russian border region "to keep the Russians in check" may on the one hand cause Stalin to pipe down abruptly and may at the same time promptly shift the news spotlight away from this area and back to the Battle of England.

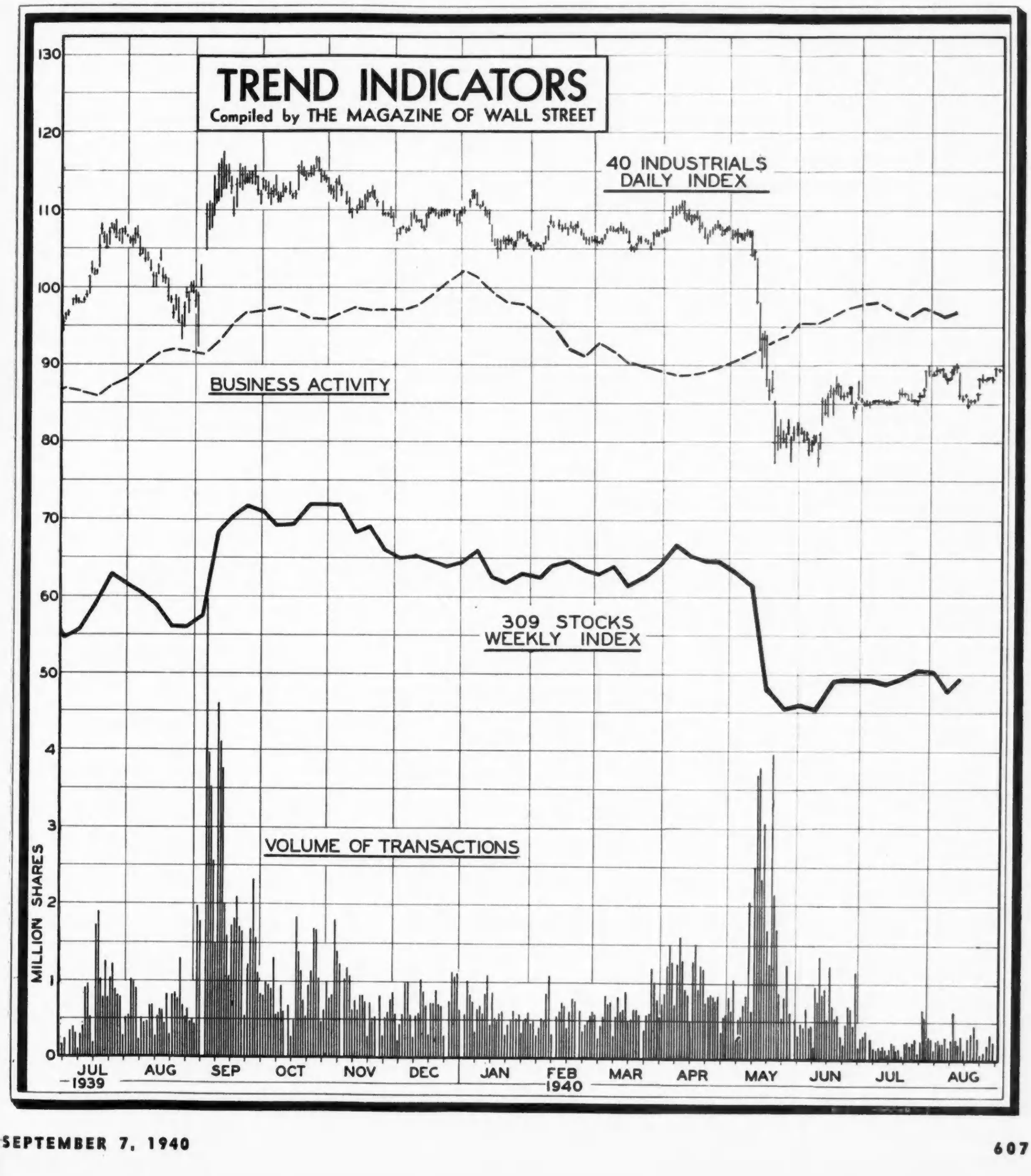
Therefore, the inescapable fact is that one who has been waiting for a solid opportunity to buy this market is confronted by a dilemma which if anything is more difficult than heretofore. For weeks the worry has been possible dread news from England and risk of market decline. But now, with that risk still present in some degree, there is the opposite and substantially increased risk of missing a worthwhile advance if the war news remains even negatively favorable.

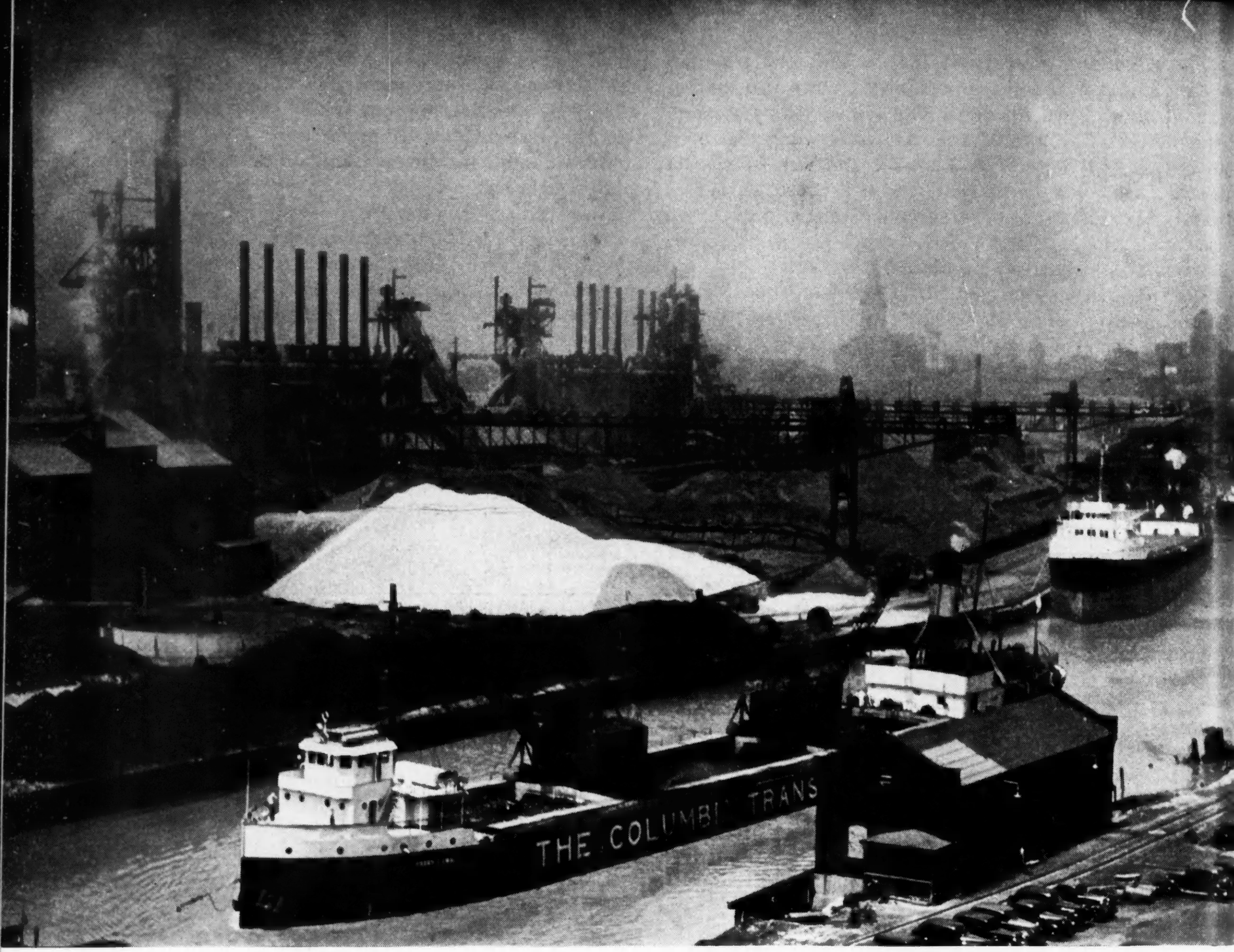
At this writing the chances appear to favor further rally to within the 132-135 area of the Dow-Jones industrial average. Barring the ever-present threat of foreign news shocks, it might be readily possible for this objective, or an approximation of it, to be attained even before this analysis reaches the reader. In that case the technical risk of buying near a rally top and of being hung up through a subsequent reaction—whether caused simply by speculative profit-taking or by unsettling news—would be substantially increased.

Accordingly, for the present, our own decision is to play it safe and defer new buying recommendations.

As regards policy for longer term investors, any part of whose objective is cyclical appreciation, it seems to us that the only intelligent course is compromise. In the present setting they should neither be fully invested in cyclical securities nor fully in cash. Rational variations between these extremes offer broad leeway and will naturally have to be determined according to varying individual circumstances and requirements.

Saturday, August 31, 1940.





Charles Phelps Cushing

Industrial centers, Cleveland, being typical, are already humming, with the big armament push yet to come.

Timing the Armament Boom

BY LAURENCE STERN

There is not the slightest doubt that the American armament program will eventually produce an industrial boom the like of which we have never known before—provided wholly unexpected war developments do not permit us to scale down the expenditures now contemplated.

The initial arms investment is scheduled at approximately \$15,000,000,000—but this is only a start. It does not by any means cover the entire original cost of either the naval expansion now planned or the full equipment of a modern army tentatively put at 2,000,000 men.

What the additional necessary expenditures for original equipment will have to be over the next five to seven years can only be a matter of conjecture rather than precise estimates. Tentative Washington guesses, however, put it at probably not less than \$10,000,000,000 more for the Navy and \$10,000,000,000 more for the Army—making an aggregate "capital investment" of some \$35,000,000,000. This staggering figure is apart from greatly expanded annual maintenance costs and does not allow for replacements of certain equipment subject to relatively rapid obsolescence, such as aircraft.

It is very difficult for the human mind to comprehend \$35,000,000,000 and even more difficult to visualize readily the tremendous impact that the spending of it will have upon our economy.

Well, one way of coming to grips with these astronomical sums is to note the simple fact that the combined capital investment of the electric power, steel and automobile industries is approximately \$18,500,000,000—or but little more than half of the probable total "capital investment" in armaments now projected!

For years we have been speculating about some major new industry that would be capable of stimulating the economy sufficiently to put idle men and idle machines fully to work. This is it—far different from what we hoped for and basically non-productive since it cannot be self-sustaining. Nevertheless its economic potential, developing to maximum over a shorter period of years than

did that of any other industry we now know, will be equivalent to that of several major civilian industries rolled into one.

A large, but undetermined, part of the program will be financed by sale of Government bonds to the commercial banks, to that extent increasing the nation's money income via the easy road of credit inflation. Through sale of bonds to other investors, many billions of idle savings will be put to work. The stimulus from these essentially different types of deficit financing will in all probability greatly exceed the deflationary impact of higher taxes, both near term and longer term—for the evidence is crystal clear that no nation, whether democratic or totalitarian, can "pay as it goes" for the tremendous costs of either total armament or total war.

In calculating the potential of any new industry, however, the most practical immediate question is one of timing. Investor or business man can be badly wrong by being right too soon. And here we come to the most controversial aspect of the armament boom. When will it get going? How much will it stimulate business over the next twelve months?

Some people assume it is virtually the only business factor that need be seriously considered from here on. Others scoff at the idea that it can become the major business influence before 1942 at the earliest. The approximate reality, as we shall see, is somewhere in between.

That none too satisfactory term—"approximate reality"—is used advisedly. Bear in mind that no precise relationship can be statistically established between a given volume and period of Federal deficit spending and subsequent changes in business trend and volume.

For example, Federal deficit spending in 1934—excess of cash outgo over cash income as reported by the Treasury—totaled $3,946,000,000 and industrial production averaged 80, Reserve Board Index. In 1935 deficit spending totaled $2,998,000,000 or approximately 25 per cent less than in 1934, but industrial production averaged 90 or 12½ per cent more than in 1934. In 1937 deficit spending was cut to $331,000,000 but average production was 110 against 105 in 1936 when deficit spending, including the soldiers' bonus, amounted to $4,136,000,000.

This, of course, proves nothing for such examples do not allow for time lag between alleged cause and alleged effect. It can be argued that heavy deficit spending in the late summer of 1936 caused subsequent high business activity in the autumn and winter of 1936-1937, and that reduced deficit spending in 1937 contributed to the depression of late 1937 and early 1938. Even on short term comparisons, however, the sequence has been highly variable both in timing and scope of business improvement.

It should be obvious, in considering the relationship between a national income of, say, $70,000,000,000 and deficit spending of, say, $4,000,000,000, that the latter, while important, is never the *sole* factor operative on business. From this it follows that the timing and scope of economic expansion attributable to any significant increase in Federal deficit spending are always importantly conditioned by the prevailing supply-demand balance of business and the prevailing state of mind among business men.

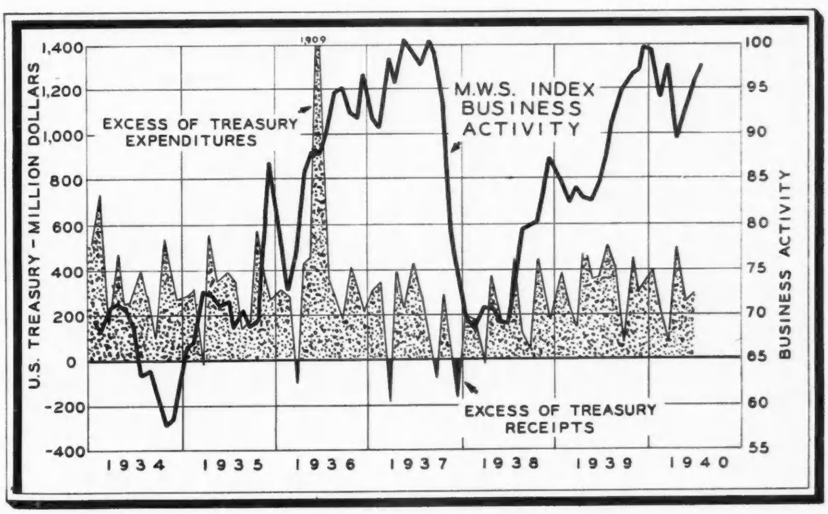
During considerably more than a year of the initial New Deal pump priming in 1933 and 1934, underlying economic relationships were not such as to permit this stimulus to be effective, and business men were generally skeptical of its results as well as of the principle behind it. It was argued that this "pump priming from the bottom," increasing demand for consumption goods, could not penetrate upward to the depressed capital goods industries.

Effect of Deficit Spending

When the veterans' bonus was voted in 1936 we had a radically different situation. Business activity was at a relatively high level, the capital goods industries were no longer in the doldrums, commodity prices had begun to rise and business men were psychologically ready to bet on the anticipated effects of the increased spending.

This background is cited merely to emphasize the fact that present supply-demand factors in the private economy and the present sentiment among business men are definitely favorable to a high degree of stimulation from increased armament expenditures. Civilian production and consumption are fairly well balanced at a high recovery level. There are no serious supply-demand maladjustments discernible. Business men know that the projected expenditures must in due course bring increased economic activity over a long period of time, and that Government demands will in major degree preempt capital goods facilities. Therefore, they have been willing in recent months to anticipate the coming boom and expand their commitments—including capital goods orders—accordingly.

It is important to note that for some time to come—in striking contrast to the situation of 1933-1934—Federal deficit spending will constitute pump priming both from



the top and from the bottom. That is, rising armament expenditures will flow first to the capital goods industries, increasing payrolls and secondarily stimulating demand for consumer goods. At the same time, even allowing for a substantial reduction in W P A relief spending over the next twelve months, the previous annual total of "relief and recovery" spending—including farm benefits—will not decrease more than moderately in the aggregate. Thus, the greater part of this previous aid to public purchasing power will continue.

It is to be doubted that any available production index can fully and accurately reflect the real stimulus of armament spending. For example, a million tons of steel going into armaments do not represent the same amount of economic activity as a million tons of steel going into rails or building shapes or tin cans. Before this steel is transformed into armor plate or intricate gun mechanisms it goes through many more processes, involving far more work, than a similar volume of metal going into simpler finished products. It is a safe generality to hold that the money spent on armaments will do more work, and create more economic activity, than can be done by W P A money or P W A money or A A A money.

Admittedly, the contingency of an early and complete German victory in the Battle of England—terminating our flow of war goods to that country—could cause a temporary business reaction. It would be largely psychological and necessarily confined to civilian activities, since accompanied by all the greater pressure to utilize maximum armament-building and munitions facilities for our own needs. Therefore, our present economic status not being importantly vulnerable, any such reaction would prove short-lived and not immoderately severe.

A reasonable guess of national defense expenditures for the current fiscal year, ending June 30, 1941, would seem to be somewhere around $4,500,000,000—assuming progressive and rapid increase in the monthly rate of expenditures from here on and especially during the first half of next year.

The *net increase*, however, in national defense expenditures over the total of the year ended June 30 last would, on this basis, be approximately $2,940,000,000. To the question how much this net increase should stimulate business between now and mid-1941 there can be neither simple nor categorical answer, because many conditional factors are involved.

Stimulus to Business

For one thing, not even the Treasury can exactly forecast this fiscal year's cash deficit, yet this item is the Government's real addition to the country's national income. It probably will be larger than the past fiscal year's cash deficit of $2,532,000,000. But as between the past and the present fiscal years allowance must be made for a probable decrease of at least $500,000,000 in W P A spending and for an assured increase in taxes of around $1,000,000,000. These two sums, totaling $1,500,000,000, would have to be subtracted from any projected increase in the cash deficit resulting from expanded national defense spending if we are to calculate the actual deficit spending.

For August, partly on an estimated basis, Treasury disbursements for national defense approximated $200,000,000 or only a modest increase over $179,000,000 total of July. For these first two months of the fiscal year the total of $379,000,000 compares with approximately $224,000,000 for the corresponding period of the previous fiscal year. The percentage increase is large, but from a base which is exceedingly low in relation to the planned program.

We are, of course, not talking about plans, projects, paper authorizations or contracts under negotiation—but about money actually paid out for national defense. If this is to reach an aggregate of $4,500,000,000 for the present fiscal year a very rapid acceleration will be required. It could be done on a schedule something as follows: a monthly rate averaging $300,000,000 during the remaining four months of the year or 50 per cent above the August figure; a monthly rate of $400,000,000 in the first quarter of next year or double the August figure and a monthly rate of $600,000,000 in the second quarter or triple the August figure. This hypothetical schedule for the nearby months almost certainly will not be equaled. Hence later months will have to run well above the outlined pace if the Government is to spend $4,500,000,000 for national defense this fiscal year.

As set forth here, this figure is cited as a *maximum* of probability in defense expenditures for the current

(*Please turn to page* 642)

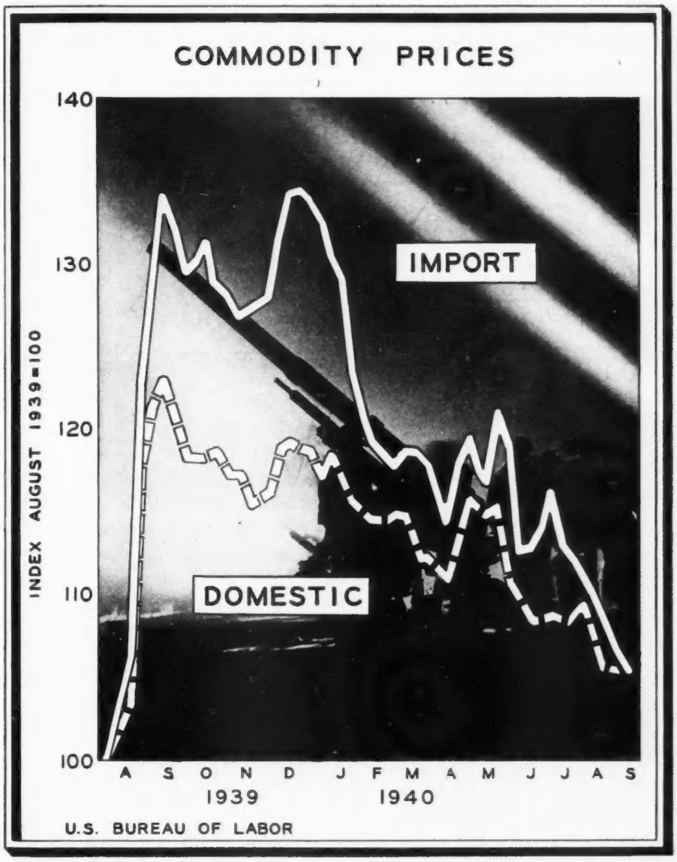
Wide World Photo

Twenty-four hours a day for Government arsenals—when and if enough skilled workers can be found.

No War Inflation . . . Why?

The supply-demand factors and governmental controls affecting commodity prices, high grade bonds and interest rates.

BY NORMAN T. CARRUTHERS



Wide World Photo

The first year of the European war has produced many surprises. Not the least of these is the manner in which commodity prices and the high grade bond market have gone counter to the expectations generally held when the war began.

On the basis of past history it seemed logical to believe that if the war lasted any length of time its implications would be highly inflationary. The records showed that three periods of major price inflation in this country since the year 1800 coincided with major wars—the Napoleonic Wars, the American Civil War and the World War.

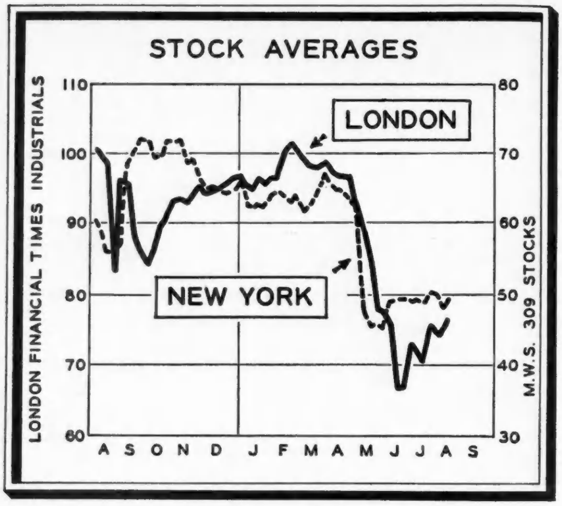
In August, 1939, prices of commodities generally were at a low level, the broad wholesale index of the Bureau of Labor Statistics standing 15 points above the extreme low of 1933 and 25 points under the 1926 average. But high grade bonds had but a few weeks previously made new all time highs, with the average yield on Treasury bonds down to 2.13 per cent and the market was holding just a shade under its peak.

Nothing could have been more pat than the premise of war inflation to which the markets reacted upon the outbreak of hostilities, and nothing could have been less prophetic of subsequent trends. High grade bonds dipped sharply. Commodity markets leaped upward as speculators and business men rushed to buy.

But within a very few weeks the commodity speculation had topped out and best bonds had rallied to within respectable distance of pre-war highs. Ever since October of last year the commodity price trend has been irregularly downward, with new lows for the entire war period established in mid-August. Moderate rally in more speculative commodities during the past fortnight does not change the real picture. Treasury bonds today are at an average level moderately above the mid-way point in the year's range and on balance have shown no significant net loss as compared with the average position on August 31, 1940.

Regardless of the past year's evidence—by no means conclusive in itself—the question whether any significant degree of war inflation is or is not probable remains of the utmost importance to investors and business men. If it is probable, investment programs and business planning must be shaped accordingly. A major price rise would, of course, tend to increase the earnings and equity values in some types of enterprise, squeeze other types, lower the purchasing power of income derived from fixed-interest or fixed-dividend investments, and inevitably set the stage for drastic post-war deflation. Any material rise in interest rates would severely reduce the market values of billions of dollars worth of prime bonds held by numerous individuals, banks, insurance companies and other institutions.

Since the first twelve months of the World War produced less price fluctuation and no more significant net advance than we have seen over the past year, it could be argued that this war's inflation—speeded by our armament activity—is yet to come in the United States,



as it has already come in considerable degree in England.

At the peak of the inflation spiral set off by the World War, wholesale prices had been lifted by approximately 150 per cent. For reasons which we shall explore hereafter, it appears wholly improbable that anything remotely approaching that performance can be expected over the next several years. Indeed, the possibility of continuing price deflation can not be entirely ignored.

Hence the writer herewith advances the thesis that the threat of price inflation and high grade bond market deflation in the United States can be safely put out of mind as the guiding or dominant consideration in formulating investment and speculative programs.

Let us turn first to the most controversial half of this thesis—the oft-cited vulnerability of high grade bonds. Mind you, the risk of capital loss in such securities is one thing while, assuming for the moment that the risk is slight, their attraction as purchases for the average non-institutional investor is something else again. A security may be 100 per cent safe, but nevertheless uninviting as to income return.

Due to the record-breaking supply of institutional money, the restrictions confronting institutional buyers in their choice of investments, and the remarkably conservative market appraisal of all security yields other than those from gilt-edged issues, the current spread between yields on "money bonds" and those available on numerous sound, medium-grade bonds and preferred stocks, as well as on best quality common stocks, is abnormally wide.

Among the latter securities can be found many yields of 4 to 5 per cent which are adequately safe by standards appropriate to the great majority of individual investors. Few of them, in the writer's view, can have any valid reason for competing with institutions in purchasing obligations which yield less than half as much income.

Yet even if institutional investors held all outstanding top grade bonds—which they do not—this question of bond market vulnerability would nevertheless be of vital importance to all individual investors as well as to the general public. Government credit, dominant factor in the high grade bond market, is the bedrock foundation of our entire financial structure. A serious threat to the "money bond" market could not be lightly regarded by any of us.

This market, of course, is not immune to psychological shocks and to periods of pressure. The initial war reaction was chiefly due to psychological factors and required relatively modest support buying by the Federal agencies at the beck and call of our "money managers." The last period of protracted pressure was seen in 1936-1937 when commercial banks unloaded some $2,000,000,000 of Government bonds, but that was due to a deliberate and mistaken policy of credit deflation which had been adopted by the Reserve Board and the Treasury in the belief that we were then threatened by a runaway inflation, whereas we actually were heading for the 1937-1938 depression! There is the strongest kind of circumstantial evidence that our credit controllers have taken the lesson deeply to heart.

There are two cogent reasons why the Government, and others, can view the outlook for the high grade bond market with considerable equanimity. First, there is the continuing existence of the huge reservoir of surplus investment funds, which was created mainly by chronic deficit financing and by tremendous imports of gold. The money supply—much of it with no place to go except into Government bonds—will assuredly increase further as the Treasury borrows to finance the armament program, and for an indefinite time any deflationary move by the Treasury or central bank authorities is unthinkable.

Second, few people realize how numerous and powerful are the controls and supports which the Government could apply to the bond market upon necessity at any time. Both legislation and circumstance have enormously strengthened these controls since the present Administration took over the reins. No previous bond market test to date has given them even a brisk work-out.

The Biggest Bond Holder

The Government is the biggest single buyer and holder of its own bonds. Federal agencies—Federal Reserve System, old age pension fund, unemployment insurance fund, railroad retirement fund, etc.—hold approximately 21 per cent, or around $9,000,000,000, of the gross debt outstanding, leaving some $35,000,000,000 in other hands. Among these agencies the available buying power that could be used to support the bond market is always substantial; and in the case of the Federal Reserve Banks and the Treasury itself this buying power could be enormously expanded by resort to perfectly legal fiscal magic.

Present excess reserves of the Federal Reserve banks would permit them to buy many times the volume of Government bonds now held; monetization of the Treasury's presently non-monetized gold and silver would give it some $4,000,000,000 of buying power; and this operation would further vastly expand the excess reserves of the Reserve Banks, thus permitting them to pyramid their bond holdings by additional billions. Therefore, on a pinch, Government agencies could buy any conceivable volume of Government bonds that other holders might throw at them. These bonds, incidentally, are eligible collateral for Federal Reserve notes, so that for all prac-

tical purposes a $1,000 Government bond is virtually equivalent to $1,000 of money. What about the distance between present prices and par? That's pretty much up to the Treasury, if it cared to concern itself with relatively unimportant fluctuations. If it chose, it could stabilize that market about where it is or put it higher.

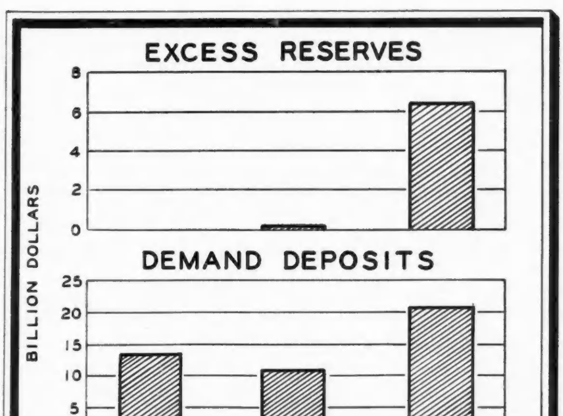
If despite what has been said heretofore, you still wonder whether a debacle to the Government bond market is possible, what do you suppose would happen to the banks and insurance companies just before said debacle appeared on the horizon? Answer: they would involuntarily and promptly become Government institutions—and they would dump no bonds.

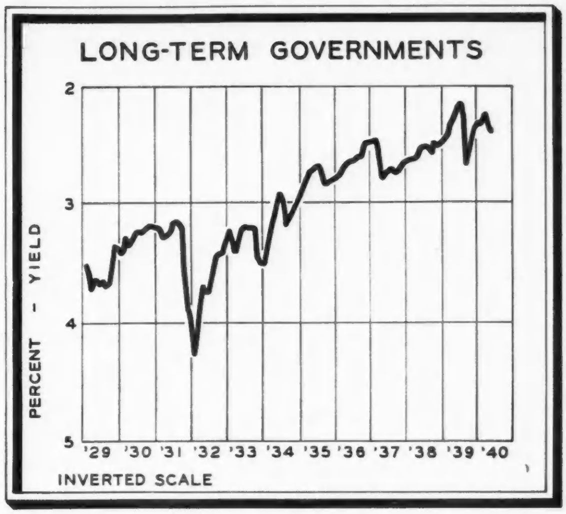
Great Britain is fighting her death grapple on a 3 per cent interest basis. With incomparably greater credit and taxing resources to draw upon, there is no reason why we can not finance our armament program on an interest basis very close to that now existing. Therefore, even allowing for the possibiliy that we also may eventually be at war, the writer can see no probability of any significant rise in interest rates unless and until the Government elects to permit a rise—and that will not be any time soon.

Which brings us to the other half of our thesis: namely, that any important inflation in the domestic price level is improbable.

In years long gone by it was accepted doctrine that any substantial increase in the nation's supply of monetary gold must be accompanied or followed by a rising commodity price level. In recent years we have had an increase in our gold supply that makes the historical gold discoveries in California and Alaska and elsewhere look like chicken feed. But this has no practical relationship to commodity prices. Today changes in the volume of money in use—currency and bank deposits—depend chiefly upon central credit "management," business conditions and the public state of mind.

Put most simply, the condition for price inflation is that demand for commodities should exceed available supply. That never happens for more than brief periods excepting under the abnormal distortions of a major war. The present war, however, has not increased the demand for *our* commodities by anywhere near the degree that





the World War did, and this state of things is not likely to be substantially changed even if the British and Germans fight on for some time to come. Secondly, the supply side of our economy has a far greater capacity and efficiency than it had in the World War period and the same is true for the world as a whole. Thirdly, the price controls available to all governments are far more numerous and effective than they were a quarter of a century ago.

Such inflationary stimulus as this war holds for us must contend with the downward pull on prices which is the inherent long run tendency of capitalist technology—and that pressure today is stronger than ever before in our history. The industrial revolution has spread far beyond factory technique. With especial speed during and since the World War period it has swept over agriculture and the raw material extractive industries in many lands but with major intensity in the United States.

Thanks to machinery and scientific progress, our farm plant produces more per acre, and produces it more efficiently, than formerly. Hence agricultural supply in existence, or capable of being brought relatively quickly into existence, tends chronically to outrun demand. The same is substantially true of most extractive industries. Moreover, since the World War, many important new areas of supply—both as to foodstuffs and industrial raw materials—have been developed. As to prices of finished goods, working to hold them down are not only increasing technological efficiency but all the persuasive powers of government and the realization among business men more than ever before that to hold them down so far as possible is the only feasible way of maintaining or increasing volume.

These observations check with what, in terms of the market speculator, would be called the "technical" evidence that the long run price trend is downward. The last commodity price peak was made in 1920. It was not remotely approached thereafter. Some people thought they saw commodity price inflation developing in 1923, but the move was just a rally. The boom of 1926-1929 did not see 1923 price level equalled. The economic recovery of 1936-37. (*Please turn to page 642*)

Happening in Washington

Foreign Policy in the Making

BY E. K. T.

THE Administration is working rapidly to perfect and put into operation a vigorous foreign policy toward which it has been moving for several years. At times this policy has appeared vague and ambiguous, it has been marked with false starts and trial balloons, but in general it has been quite consistent and now that it appears to have public support it is being rounded out and implemented.

The next few weeks and months will see actions taken of vital importance to this nation's future policy, though perhaps no more unprecedented than several recent developments. The current election campaign and the continued session of Congress are causing the Administration to move cautiously, but events of the European war may lead to some dramatic developments.

Basically, the policy is to protect this hemisphere, and so far as possible democracy everywhere, from aggression and totalitarianism. This includes cementing the American nations into a sort of economic and political bloc; cooperation with the British Empire in many ways; a firm stand against Germany, Italy and Japan; and military and economic weapons sufficient to put teeth in this policy.

In formulating this policy President Roosevelt has made full use of the principle that the executive branch should have a rather free hand in foreign affairs, so much so that he is frequently attacked for lack of candor, is charged with making secret commitments, and at times has been checked by Congress and public opinion. But the country now seems to have accepted this policy with all its implications and to be ready to support it with whatever actions are called for provided the President does not have some undisclosed and revolutionary plans up his sleeve. He has a way of letting his foreign policies leak out in driblets at press conferences and of presenting Congress with fait accompli.

The United States long ago abandoned the fiction of neutrality for the status of a non-belligerent giving England every aid short of war. We will not (at least for several months) consider joining the war "unless the war comes to us." Germany has been scrupulously careful to avoid any incident which would give us an excuse to declare war, but we have done many things which a victorious Germany could well hold against us for aiding and abetting her enemy. Administration spokesmen have made it clear that there is no doubt that if England is defeated the war will come to us, and not necessarily through any overt act by Germany.

The economic and military strength of the United States is being held out as the first line of defense for Latin America and the second line of defense for the British Empire against an assumed intention of a victorious Germany to attempt conquests outside of Europe. We are asking nothing in return except to be loved and trusted, which makes foreign governments suspicious of our altruism and makes voters here wonder whether it is an election trick to build up the idea that things are going on which only Roosevelt can complete.

If England succumbs to a swift Nazi blitzkreig, the assumption is the rest of the Empire will fight on, though it may not be active warfare for some time. We already have what amounts to a defensive alliance with Canada, a belligerent, though without Congressional approval; we have announced that Germany will not get possession of any European colonies in this hemisphere; we shortly may have naval and air bases in nearby British possessions. Thus if England is defeated the war will inevitably come to us, and we will be in it. The Administration is definitely planning on this.

If England repels invasion and manages to keep her industries operating despite air attacks the war will drag on for a long time and the United States will give England increasingly more material aid: ships, planes, munitions, food. If England needs credit, ways will be found to supply it. We will cooperate passively in the British blockade of the Axis powers, and try to offset German influence throughout the world. We may become so mixed up with the affairs of the British Empire in one way or another as to become virtually allied with it and in a couple of years we will be prepared militarily and perhaps psychologically to join the war.

In either event we will work furiously to strengthen economic, political and cultural ties with Latin America. The Havana conference was a real gain in this direction.

The proposed $500,000,000 for the Export-Import Bank will help a lot as long as the money lasts. But there is a limit to what can be accomplished along this line for many reasons, including politics both here and there.

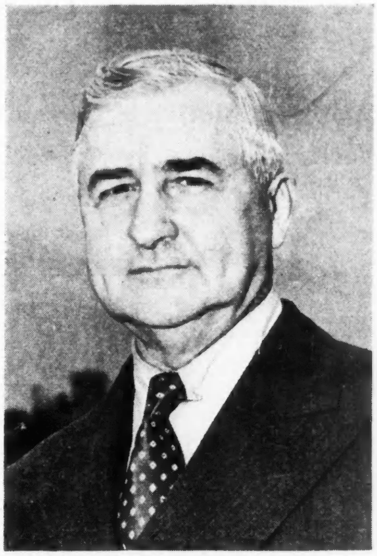
In the Pacific, the Administration probably will take an increasingly stern attitude toward Japan, though as long as England is in a death struggle it may not threaten force to prevent Japan from extending its influence in the East Indies. However, there are rumors of an alliance with Australia similar to that with Canada, and of U. S. naval bases in British East Indies, and these can be talked up whenever Japan makes a gesture.

As to the near future, the only thing certain is that the Administration will assist the British Empire as rapidly and as completely as it thinks the public will stand for, and it is doing a pretty good propaganda job to get the public to go along. The next steps may be little more than completing the details of the Canadian defense agreement, making definite arrangements for bases, and finding some way of selling some destroyers, or they may be something new and dramatic. The course of the war over the English Channel and the course of the presidential election campaign here will largely determine just what is done and when.

CAPITOL BRIEFS

Profits tax bill was delayed and revised by conflict between Treasury hope to get high revenues and adopt principle of regularly taxing big corporation profits heavily, and Congressional insistence on removing as many inequities as possible. Both views won out. The new House bill is easier on companies having unusually low "normal" profits during base years for various reasons, but once the normal profits are exceeded the government's take is higher and in many cases will run above 50 per cent of earnings. Thus the bill is both fairer and tougher than originally drafted, but is workable and should not discourage investment in private industry, though dividends will be less even with increased general corporation prosperity.

Presidential campaign may be quite unorthodox in many respects. Without discounting the possibility that Roosevelt may spring some sudden surprises, as is his wont, observers are suggesting he may keep absolutely silent and pretend there is no campaign, thus giving Willkie the appearance of shouting at a stone wall. Some think this would be his best possible strategy but doubt he can resist the temptation to answer back now and then. Willkie figures his greatest strength will come through the independent Willkie clubs, operating outside the regular G.O.P. organization, and working quietly with dissident Democrats, independents, and new voters.



Wide World Photo

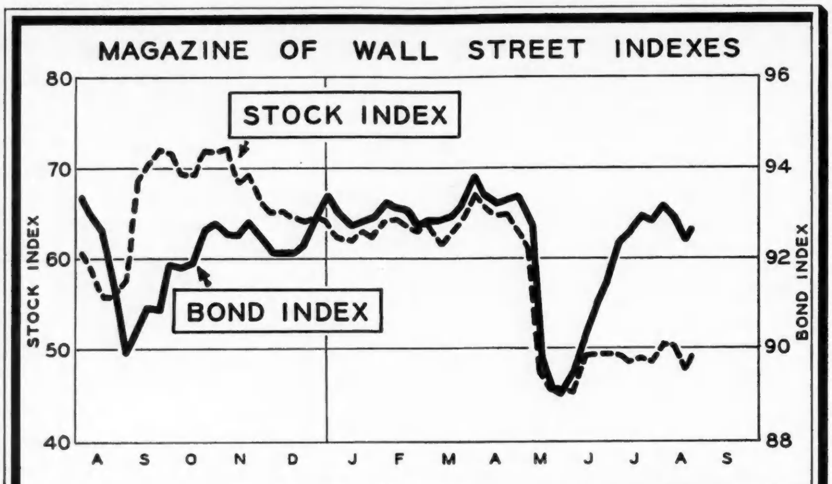
Jesse H. Jones, Federal Loan Administrator—to be offered Commerce Post?

Latin American loans to be made under $500,000,000 Export-Import Bank bill are quite a mystery. Administration claims to have abandoned its huge cartel scheme to buy and hold exports that the Axis powers might want, and Jesse Jones says the loans won't be made to store farm products to raise prices, but nobody has said just how the money can be used to good economic or political advantage. There is a suspicion that because Jones planned to make loans only on a sound business basis the New Dealers are after his scalp and trying to kick him upstairs.

Defense bottlenecks of many sorts exist in the defense program, but two in the political realm are acute right now. One is general distrust by business executives of present administration and what it might do any time in the future. Another is geographical jealousies, with states and chambers of commerce pulling all sorts of wires to get contracts and new plants in their localities; they become such a nuisance underfoot as to interfere with routine, and steps are being taken to keep political pressures out of the defense picture.

Defense Commission is defending business against charges of a capital strike, putting profits before patriotism, etc., hurled by habitual business-baiters in and out of the government, and so far it has been supported in this by President Roosevelt. Contrary to expectations, the New Deal reform element has been kept completely out of the defense picture, though opinion is divided whether this is re-election strategy or genuine realization that business methods must be followed to get maximum defense production. Sooner or later present advisory setup probably will have to be replaced by a body with real executive authority, but as this proposal has now got into politics Roosevelt will resist it prior to election.

Anti-Trust show-down will come soon, with major oil companies the goat. New Dealers are incensed that Defense Commission holds up filing this huge suit, planned as test case to break up all big businesses, while some in Congress threaten investigation. An official decision and explanation is due soon, and if the final outcome does not suit the volatile Thurman Arnold he may explode and resign in a huff.



Today's Opportunities in Bonds and Preferreds

Change in Status Relative to Common Stocks Not Yet Understood or Appreciated

BY J. S. WILLIAMS

In any period of expanding earnings there are various grades of securities which offer to the speculator different stakes in that expansion. Although acting strictly as a speculator, he may elect to ride the uptrend in relative safety with ordinary grade bonds, or with convertible issues which give him a call on the junior equities if all should go well. He may buy defaulted bonds, or preferred stocks with large accumulated dividends. These latter two classes he is likely to prefer if he is convinced that capital appreciation in their cases must come *before* that in the common stocks of the same companies.

Although some of the gains in these specially situated classes of securities were spectacular back in 1935 and 1936, examination shows that in all but a few instances the common stocks would have been equally good or better as speculations. If a preferred with accumulated dividends rose from 50 to 100, then paid off $20 or so in arrearages, the common during the same length of time moved from 10 to 25 or higher. The increment amounted to 140 per cent in the case of the preferred and to 150 per cent on the common. Only relatively greater safety was to be gained by buying the preferred, and that was an advantage not easy to measure in practical terms.

In other words, so far as actual results are concerned, the speculative wisdom of buying other than the common stocks in well-placed companies five years ago is still unproved.

But now there is a new factor in the situation. It has already caused confusion and loose thinking among financial circles. It deserves to be better understood and doubtless will be; but readers whose interests are affected will find it worth while to do so before the run of the crowd.

In today's mail is a study made by a broker of a preferred stock he considers attractive. He concludes that earnings are on the rise and the large accumulated dividends may soon be paid off or eliminated through some other offer. Also important, he thinks, is "the fact that this issue will not be affected by the proposed tax on excess profits." The meaning is that the preferred is free from such taxes while the common is not. There is absolutely no foundation for such thinking.

The fact is that whatever excess profits tax goes through Congress now, and presumably whatever taxes are to follow next year, will be levied on net income—not earnings per share of either preferred or common. If the income increases to the point which brings it under the impact of the tax, it will be cut by the levy, and that will affect earnings available for both common and preferred dividends. In cases where there are accumulated dividends, the tax may very possibly result in holding net earnings down below the point where their payment in full would be possible. So preferred stocks are by

Convertible Bonds

	Current Price	Call Price	Conversion Privilege for each $1,000 bond.
Allis Chalmers 4% 1952	108	106	Into 12½ shares common until 1941, then changing.
Baldwin Locomotive 6% 1950	111	105	Into 65 shares common until 1945, then changing.
Great Northern Ry. 4% 1946 "G"	100	105	Into 25 shares preferred until 1946,
Interlake Iron 4% 1947	85	105	Into 37 shares common until 1941, then changing.
Pennsylvania R. R. 3¼% 1952	83	105	Into 20 shares common until maturity.
Phelps Dodge 3½% 1952	109	105-	Into 20 shares common until maturity.
Youngstown S. & T. 4% 1948	102	101½	Into 16 shares common until 1942, then changing.

no means immune to the coming excess profits taxes.

What has happened is that the *relation* between preferred and common stocks has changed. No matter how the company is capitalized, the common stock enjoys a certain amount of leverage if there are other issues ranking ahead of it. When earnings gain, it is the *latter part* of their increase which affects the common most, and the issue most affected is the common. Since this latter part of the increase is the one directly penalized, if any is, by a tax on excess profits, the common stock bears the brunt of the tax in losing part of its relative advantage of leverage. The excess profits tax is a tax on marginal earnings and that is the common stock's principal asset.

Take a company with a funded debt of $10,000,000, bearing interest at 5 per cent, 100,000 shares of preferred stock paying 7 per cent dividends, and 500,000 shares of common. Interest charges amount to $500,000 annually, preferred dividends to another $700,000, making a total of $1,200,000. If the earnings are $2,000,000, the common finds left over after dividends and interest $1.60 a share. If earnings increase 50 per cent, to $3,000,000, the net per share of common goes up 125 per cent, to $3.60 per share. The leverage tends to compensate for the greater risk and possibly smaller dividends accruing to the common stock.

But a tax which applies particularly to any of the latter part of those $3,000,000 in earnings immediately damages the leverage. It does not make the preferred stock a more attractive speculation on an absolute basis. It simply makes the common somewhat less attractive and the preferred a relatively better vehicle for participating in the company's fortunes.

In addition to the change being brought about by the excess profits taxes, there is another condition which would not be general if it were not for the likelihood of an armament boom. That is the necessity of financing additions and improvements by companies which are not working directly for the Government and therefore can not expect the help of direct or indirect credit from that source. While they may borrow money, in many cases they would prefer to use common stock to acquire new plants. One way is to sell additional stock to holders by issuing rights. Another is to buy the plants using stock in payment. Either method makes it desirable that the common be placed on a dividend basis. And where preferred arrears exist this is, of course, impossible. The sooner they can be paid off the easier the new financing, almost regardless of its form.

The accompanying table lists a few of the most interesting preferred stocks with arrears, all of them now operating in the black and, what is more, due to earn their dividends from once to ten times this year. The list could be made longer; as a matter of fact it has already been shortened by one issue in getting it into print, since Yellow Truck has just announced the full clearing up of arrears. Among the most imminent candidates for the same sort of treatment are Republic Steel and International Paper. Republic has the advantage of a sinking fund which has not yet come into operation and International Paper has the privilege of converting into common stock on a two-for-one basis. Crucible Steel has very recently proposed a plan for exchanging the preferred for a 40 per cent larger amount of new 5 per cent preferred, also to carry a conversion privilege.

Although these issues range in price down to the forties, the companies have given every indication of their intention to clear up accumulations at the first opportunity. Of those outstanding during the whole of the last five years, only Budd Mfg. has failed to make some cash payment. American Woolen has paid $10 during the five years (an average yield of better than 5 per cent on the current price), Byers $21.55, Crucible $15.50, General Cable $14, Jones & Laughlin $11, and Republic $46.50. Since the final quarter is the time for such payments, it will be surprising if these totals are not substantially augmented before 1940 is over.

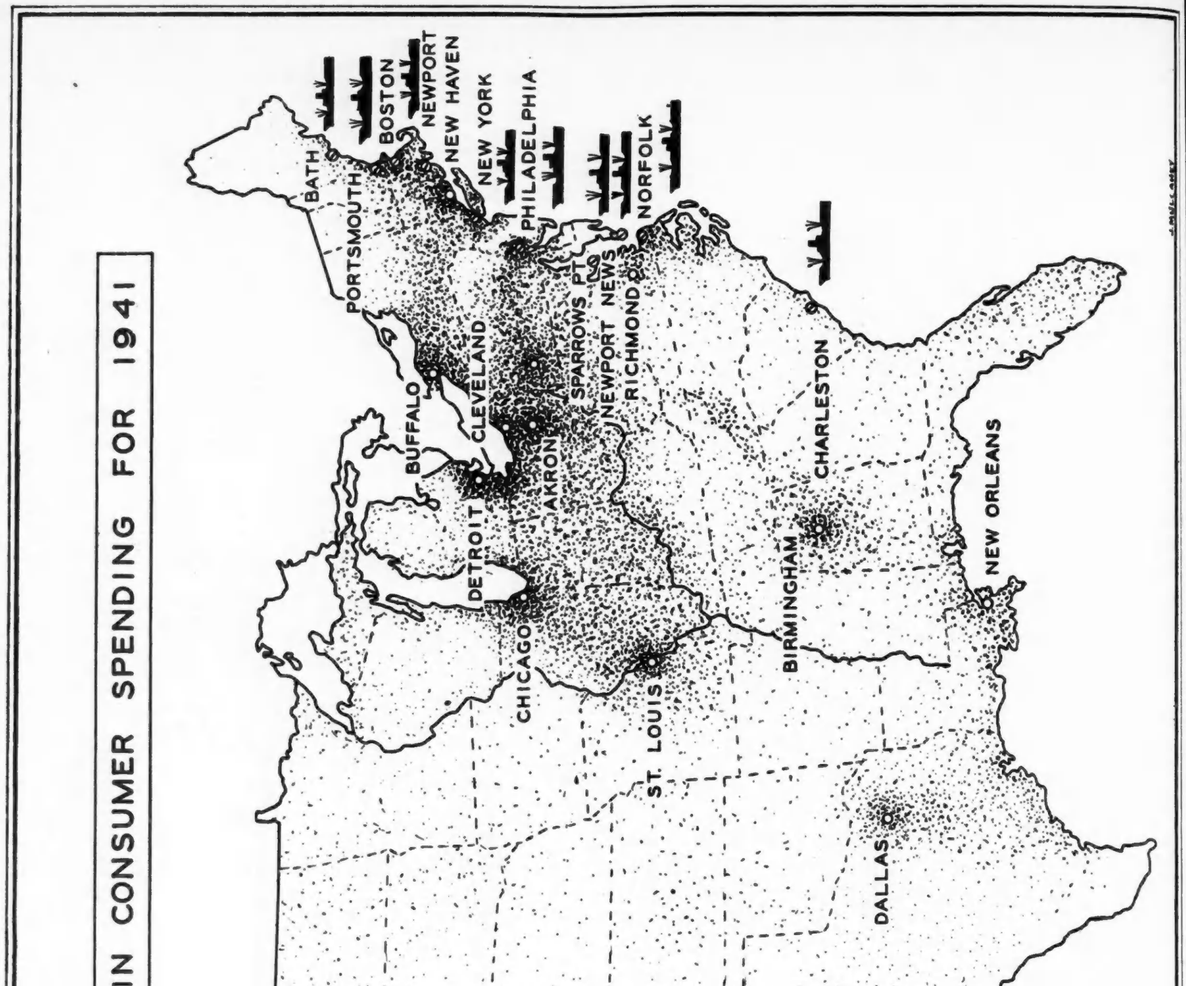
Preferred Stocks with Arrears

	Arrears	Dividends 1939	Dividends 1940	Earnings 1938	Earnings 1939	1st Half 1940	Recent Price
American Woolen 7%	$80.25	.....	$3.00	d$13.81	$6.61	.....	38
Budd Mfg. 7%	68.25	.....	.....	d 24.90	3.66	$16.90	40
Byers, A. M. 7%	33.25	$12.57	6.48	d 10.69a	9.45a	6.48b	56
Crucible Steel 7%	40.75	.....	.....	d 9.37	11.74	10.07	90
General Cable 7%	52.50	.....	.....	d 5.96	4.89	9.97	55
International Paper 5%	12.50	.....	2.50	.13	5.29	9.61	58
Jones & Laughlin Steel 7%	43.50	.....	2.00	d 10.01	5.43	5.58	70
Pittsburgh Steel 5½% prior	16.50	.....	.....	d 9.77	11.31	7.59	30
Republic Steel (old) 6%	12.00	7.50	9.00	d 81.04	75.06	46.85	93

(a)—Year to September. (b)—9 months to June.

The case for convertible bonds such as those listed in the second table is a somewhat different one. As a means of securing a modest, steady income, however, while making some preparation for a possible advance in the stock market, these issues have their advantages. Their interest charges are safe from any tax on excess profits now in sight or considered possible. It is true that in some cases earnings before taxes must rise considerably to give the conversion privilege a value high enough to lift the bond above its call price. Yet this is one of the contingencies to be provided for in a period of

(*Please turn to page 645*)


PROJECTED GAINS IN CONSUMER SPENDING FOR 1941
BATH
PORTSMOUTH
BOSTON
NEWPORT
NEW HAVEN
NEW YORK
PHILADELPHIA
SPARROWS PT.
NEWPORT NEWS
NORFOLK
RICHMOND
BUFFALO
CLEVELAND
AKRON
DETROIT
CHICAGO
ST. LOUIS
CHARLESTON
BIRMINGHAM
NEW ORLEANS
DALLAS
DENVER
SEATTLE
BREMERTON
PORTLAND
ALAMEDA
SAN FRANCISCO
LOS ANGELES
SAN PEDRO
SHIPYARDS

Future Retail Spending By Zones

Large Gains Certain in Industrial Areas in Line for Expanding Armament Work

BY H. F. TRAVIS

THE last experience this country had with a sudden major increase in consumer buying power was in 1936 when the soldiers' bonus was distributed. At that time retail trade stepped up sharply and the impetus given to it by the increased spending power of the veterans did not subside until approximately a year later. The increase in public spending power expected to accrue from preparedness program expenditures has been compared by many students to the bonus, a comparison that is not well founded when prevailing conditions and the amounts of money involved in the two situations are considered.

In 1936, when the veterans' compensation was made available to them, most of the potential recipients had been through at least five years of unprecedented financial stringency and were thus substantially in debt. Moreover, due to this same restriction in income, many veterans who owned homes found them in a state of disrepair after a long period of enforced neglect. Both of these factors made it necessary that the "windfall" of the bonus should be used first to satisfy prior claims and immediate needs and if anything were left over, to satisfy some less imperative wants. And, to make the comparison between 1936 and 1940 more difficult, the earlier amount involved was somewhat less than $2 billion as compared with at least double that increase in national income during the next twelve months and perhaps even more.

Nevertheless, despite the fact that more than 40 per cent of the 1936 amount was expended in the satisfaction of old debts and repairs of existing structures, the effect of this sharp increase in consumer income was to push retail sales of all sorts to a new high point for the post-depression period which was only surpassed late in 1939 when the initial war spurt stepped up the rate of industrial activity to high levels.

In order to see how the public may expend sharply increased income, the bonus distribution of 1931 will perhaps give a better comparison than what happened in 1936. At that time, it will be remembered, the veterans were allowed to claim up to one-half of the face amount of their adjusted compensation claims. Not every veteran took advantage of the opportunity but there were a sufficient number who did so to make an appreciable impression upon retail trade despite the fact that it was headed downward at that time. Since in 1931 not everyone had suffered the full effects of the depression there was not such a great proportion of prior debt to be liquidated and besides, many of the veterans were still adequately supplied with necessities purchased in the more profitable years which had gone before. In other words, while we are now in a recovery phase and 1931 was in a decline yet the condition of the people at the immediate time of the bonus payment was approximately the same as it is today, and expenditures of today are likely to follow the pattern of 1931.

Retail Sales Will Rise

In 1931, about 65 per cent of the total amount received was expended for personal and family necessities while about 9 per cent went for the purchase of automobiles, 9 per cent for business expenses and the remainder for savings, etc. The 65 per cent represents what may be expected to be expended in retail trade out of the coming increase in public purchasing power. Of this amount it is logical to expect some of it will be spent for foodstuffs although the proportion which accrues to the food dealers will probably be considerably less than the normal 40 per cent of total consumer purchases since much of the increase will represent additional income to many of the recipients and will therefore be in excess of usual necessitous spending.

It is therefore fairly obvious that most of the increase in consumer income occasioned by better industrial activities will result in higher retail sales. But, unlike the bonus stimulii mentioned earlier, the effects will be strongly localized in the earlier stages to a relatively few highly industrialized areas, widely scattered from a geographical standpoint. Among the first industries to feel the effects of any increase in general industrial activity is the machine-tool manufacturer. Machine-tool makers in the Cleveland and New York areas are already operating at capacity with no appreciable let-up in demand in sight. Airplane makers already had a large back-log of orders on hand before the United States embarked upon its preparedness program and as a result have had a substantial increase in business which has not only necessitated the increase of manufacturing facilities by a wide margin but has also given the manufacturers at least two years' work at even better than present production

capacity. Communities benefited by increased aviation business are exemplified by such widely separated cities of Los Angeles, California, and Paterson, New Jersey, where airplane activities are at their peak and there is a crying need for additional assistance which eventually will increase the number of workers in each community by a substantial amount. While this is true of these two divergent points it is also true of other areas such as in the vicinity of Detroit, Chicago, Dayton, New York and even several small towns on Long Island such as Farmingdale and Mineola which are close to the metropolitan area of New York.

With steel playing such an important part in the rearmament plans, both for arms and machinery as well as the needed new plants in which to manufacture them, it is logical that the steel districts of Pittsburgh, Chicago, Cleveland, Buffalo and Birmingham will continue to be the centers of great industrial activity with a consequent increase in the buying power of the workers engaged in the manufacture of steel in these territories. The manufacturing centers of Connecticut will benefit from the increased demand for brass and copper products and the seaboard towns of Massachusetts such as Fore River and the shipbuilding towns of Norfolk and Newport News, Va., and Philadelphia, Pa., will experience a recovery in maritime building such as has not been seen since the fabulous days of the World War No. 1.

Farmer Income Important

Purely agricultural centers located in the northern tier of states and certain areas in the south which are at a distance from industrial areas will not feel the stimulus of increased industrial activities at once although at a later date a good demand for their products should appear and may be accompanied by better prices for their wares, thus giving these territories eventually higher purchasing power. In the interim, however, even these areas are not devoid of fairly good retail sales prospects for despite the fact that direct government payments to farmers are likely to be somewhat smaller this year than they were a year ago current estimates place farm income for 1940 at about $250 million above the $8.5 billion estimated for 1939. It is probable that the best part of this increased income—should it be realized—will be expended for additional retail goods. Even in this case, however, there is a geographical difference in the probable intensity of spending for in the south the tobacco crop is small and the loss of foreign markets has seriously affected the cotton crop, although in each instance the full brunt of the situation has been taken off the farmer by the government's crop loan policy.

The middle-west farmers are probably best fixed of any group since corn and hog prices are both rising: the former being above loan values and the latter well above relatively recent corn-hog ratios. The retail trade in the upper Mississippi valley and in the St. Louis and Chicago areas should benefit substantially from the rising prosperity of many of the farmer-customers.

Two classes of merchandisers serve all areas of the country and as such should be in a position to benefit considerably from any increase in consumer buying power no matter how localized the gains may be. These are the mail order houses such as Montgomery Ward & Co. and Sears, Roebuck & Co. and the great chains of variety stores such as Woolworth, Kresge, Newberry and the like.

Montgomery Ward is already indicating some benefits from increased consumer buying power for July sales were 11.2 per cent above those of a year ago while six months' sales showed an increase of 10.1 per cent. Despite the probability of higher taxes, Montgomery Ward should report earnings in excess of the $4.91 a share earned in 1939. Sears, Roebuck July sales showed an even better gain over a year ago than those of Montgomery Ward when an increase of 16.9 per cent was indicated as compared with an 11 per cent gain for the six months period over those of the same months of a year ago. Sears may be expected to top the $6.60 a share of common stock earned last year by a comfortable margin with even better prospects for 1941 providing nothing drastic occurs to present plans in the meantime.

Leader of the variety stores group, F. W. Woolworth & Co. has not shown spectacular sales gains in recent months despite the obvious ability of many consumers to buy more. In an effort to increase sales 24 new stores have been planned for this year as well as the enlargement of about 115 others. These additions and improvements will have a later effect upon sales volume but for July sales were but 0.7 per cent above a year ago and for the seven months were but 4.5 per cent greater than for the same months of 1939. Due to the fact that foreign business normally accounts for about 35 per cent of total earnings and a further reduction of about 20 per cent in the receipts from Great Britain is expected this year, it is probable that Woolworth will experience a moderate decline in net earnings although the current dividend is not considered to be in danger and, over the longer term, any loss of foreign business might be partly offset by better domestic sales.

Outlook for Department Stores

While J. J. Newberry Co. was mentioned as a typical nationally operated variety store chain, it represents a somewhat different situation than that of Woolworth for of Newberry's 470-odd stores scattered throughout 45 of the 48 states, about half of these units are located in the industrial centers of New England and the Middle Atlantic states. As was pointed out earlier in this study, parts of New England and the Middle Atlantic states are experiencing a sharp upward surge in factory employment and this betterment finds reflection in the sales of this company. Newberry's July sales were 2.8 per cent higher than a year ago and seven months' sales were 5 per cent above those of the same period of 1939. In the case of this company, merchandising methods vary somewhat from those of the larger competitors for Newberry stores are smaller than average and sales per unit are approximately half those of other operators. Nevertheless, 1939 sales reached a new high peak and while costs are not as well controlled as, for instance, Woolworth's, earnings are on the upgrade.

An outgrowth of the variety store business is the junior department store type of retail distributor, of which J. C. Penney is the outstanding example. This company has 1,550 stores located in practically every state of the Union but some 55 per cent of them are west of the Mississippi and nearly all are located in smaller com-

munities. The locations are favored in great measure by any gains in farmer buying power and by industrial revival, as witness the gain in sales of 7 per cent over a year ago for July and a seven months' sales gain of 8.1 per cent as compared with sales in the first seven months of 1939. The stability of the company's business and the effectiveness of its merchandising policies are attested by its unbroken earnings record since 1929 and the fact that 1939 earnings—while not the highest for the decade—were nearly 40 per cent higher than in the generally accepted peak prosperity period. An equally unbroken and generous dividend record gives some indication why the shares of J. C. Penney Co. are held in high investor regard.

Those retailers who must be directly in areas favored by present and nearer term betterment in consumer buying power are the department stores which carry a wide line of merchandise from kitchenware to jewelry and furs. May Department Stores is unique in the department store field for each of its six large units is located in a city which is the central purchasing place for a large, industrially active area. For instance, the largest of the company's units is the Famous-Barr store located in St. Louis, one of the cities that is already experiencing the effects of increased capital goods demand and is moreover the metropolis of a large and currently prosperous agricultural section. Stores in Cleveland—important industrial center—and Los Angeles—the aviation capital of the country—are only slightly smaller than the St. Louis unit. The company also operates the M. O'Neil store in Akron—location of the country's largest rubber goods and tire makers as well as many machine tool and other manufacturers. The May Stores in Denver and Baltimore are somewhat smaller than the rest of the group but they too are located in areas that are currently very active and promise to be so for a considerable period of time.

While May Department Stores reports interim sales and earnings, it is as yet too early to obtain results for the first half year which ended July 31 and which are normally released some time during September. Details of first quarter activities were not disclosed although in commenting upon the situation last April, Mr. M. J. May, the President of the Company, said that sales were then running about 6 per cent above those of a year before. If the 6 per cent gain in sales was maintained—or possibly increased—during the more recent months the showing will have been much better than that made by the average department store unit. In the first half of 1940 average department store sales rose approximately 3.3 per cent above the same period of 1939 and apparently have not bettered that figure by a wide margin in the two subsequent months.

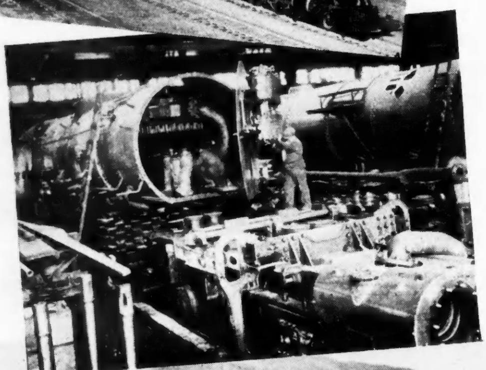
May Department Stores earned $3.58 in the fiscal year ended January 31, 1940, as compared with $3.10 for the previous fiscal period. With trade on the increase in the areas served by the company and consumers becoming increasingly able to afford the more costly and therefore larger profit bearing items of trade, it would not be surprising if the company's earnings touched the $4.12 a share reported in the "bonus" year of 1936 and later may even exceed the adjusted figure of $4.75 a share reported for 1929. In the interim, it is likely that the company's characteristically strong financial position will be maintained and the usually liberal dividend policy will be continued.

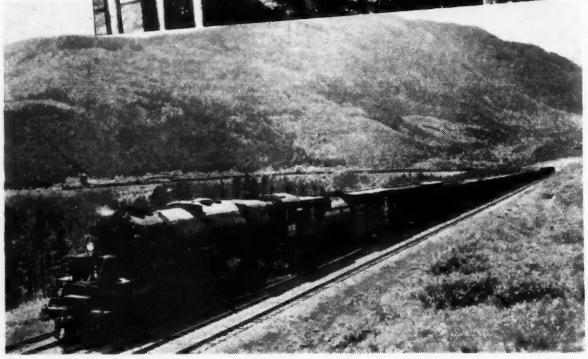
Gendreau

Increased spending power in industrial areas will crowd shopping districts and accordingly benefit retail trade.

There will undoubtedly be a number of individual beneficiaries of higher public buying power who do not operate on a national basis but rather confine their sales efforts to one section of the country or even a state. Gimbel Brothers, Macy, Marshall Field & Co., Arnold Constable Corp. and similar companies are cases in point. Gimbel Brothers, for instance, has stores in Philadelphia, Pittsburgh, Milwaukee and Chicago and three stores in New York City as well as eight branches in New York sururban localities. Since about 50 per cent of the sales come from the New York City area and a larger per cent of the profits, Gimbel's depends strongly upon the prosperity of New York City which has been lagging behind most of the country in general.

Macy & Co., with two stores in the metropolitan New York area and one each in Atlanta and Toledo, is in somewhat the same position as Gimbel Brothers since over 66 per cent of total sales accrues from the New York stores. Marshall Field is even (*Please turn to page 645*)





Photos courtesy Great Northern Railway

At top are shown the world's largest iron ore docks owned and operated in Allouez, Wis., by Great Northern.—The terminal at St. Paul—A new engine under construction in the company's shops.—Over 90 cars being pulled up the west slope of the Rockies by one powerful Great Northern locomotive.

Great Northern On the Way Back

Increased traffic and lower fixed charges indicate best earnings in many years.

BY JESSE J. HIPPLE

OF ALL of the railroads in this country, Great Northern Railway is one of the best situated to benefit from the trend of industrial recovery and the added impetus of defense preparations which are already becoming apparent in the demand for basic raw materials.

The transportation of such materials has long been an important part of the traffic of this leading carrier which taps the fabulously rich iron ore fields of Northern Minnesota and the richly productive forests of the Pacific Northwest, as well as the wheat fields of North Dakota, Montana and Minnesota, and the Pacific Coast, which furnishes much of the fruit, vegetables and canned fish for the nation. In addition, the terminals in California and Minnesota give the road direct ingress to San Francisco and Chicago through connections and—through part ownership of the Chicago, Burlington & Quincy Railroad—a direct route to the Gulf by way of Chicago, St. Louis, Mobile and New Orleans.

The breadth and character of the road's effective territory contributes substantially to traffic diversification. Remembering that the Minnesota iron ore fields are just as important to American steel makers as are those of Norway, Sweden and the Ruhr to European nations, it is not surprising to find that approximately 60 per cent of the tonnage carried by the road is product of mines. Such freight carries low rates and despite the fact that it is the greatest of any of the broad classifications, revenues are out of proportion to the tonnage involved. Nevertheless, last year ore shipments accounted for about 22.7 per cent of gross revenues. Products of agriculture—which are mostly Spring wheat—constituted about 15 per cent of total tonnage, while providing about 27 per cent of gross revenues. Forest products produced slightly better than 14 per cent of gross revenues, although the tonnage involved was only a bit more than 8 per cent of the total. Of greatest importance, however, was the contribution of the combined manufactures and

miscellaneous and l.c.l. merchandise shipments which not only were responsible for about 32 per cent of total gross revenues but were also well above those of a year previous.

While last year's business was good—gross income was 16.7 per cent higher than a year ago and car loadings about 10 per cent higher—the prospects for this year are even more satisfactory. The heavy activity of the steel industry has resulted in increasingly larger shipments of iron ore so that estimates of this season's ore movements over the Great Northern have been consistently revised upward. Early in the year it was thought that ore shipments might approach 14,500,000 tons in 1940 as compared with 13,250,000 tons in 1939. A sharp upsurge in ore demand during the second quarter of the year saw estimated ore shipments revised upward to 18,000,000 and the latest estimate now places the year's total at 19,000,000 tons as compared with the post depression peak of 20,582,000 tons reached in 1937. If the Great Lakes weather is mild enough this fall to permit a longer than normal shipping season, the latest estimate will again be revised upward since supplies of scrap iron are beginning to decline and steel makers may be forced to use considerably more iron ore in their melts than they have in the more recent past.

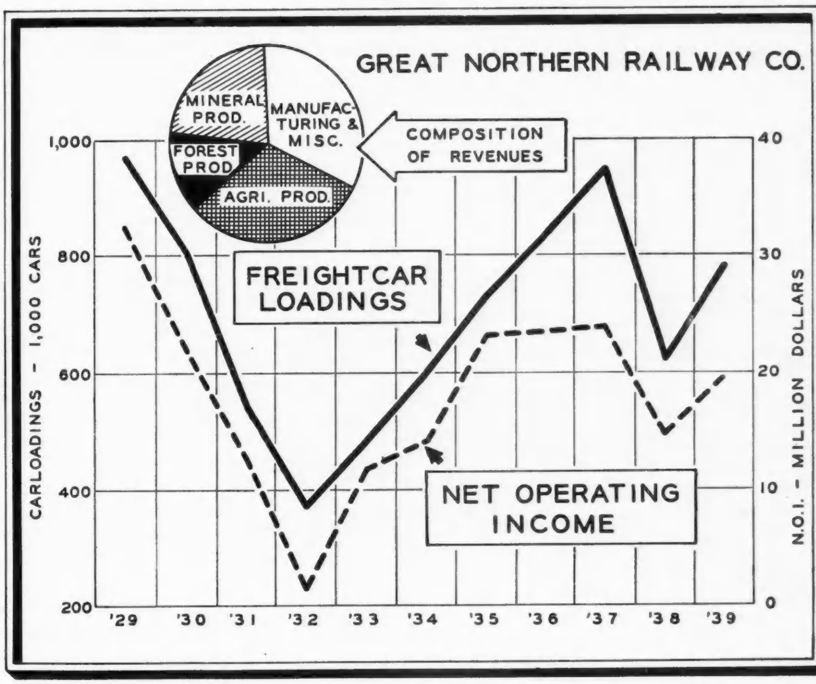
The need for lumber and lumber products for new housing projects continues high and to this will be added the large quantities of such materials needed for industrial expansion. Products of forests thus should also be a substantial contributor to better gross revenues this year. Better food packs on the West Coast, increased movements of wheat and other grains out of elevators and into the markets, heavier export movements from the road's territory to the Gulf and further sizeable dividends from the jointly owned C. B. & Q. R. R. will all help to make this a banner year for the road. And added to this, the relative prosperity of the various sections of the country traversed by the road and its affiliated connections will make for a heavy movement of inbound freight. This freight is mostly all of miscellaneous classification and much of it in less than carload quantities which carry the highest freight rates and provide the best margin of net profit.

While the prospects of increased earnings from better tonnage are encouraging, they are supplemented by the accumulating effects of recent years' financings which have reduced fixed charges during the past five years by an amount now equivalent to approximately $2.14 a share of capital stock. Not only have these financial operations reduced fixed charges by a substantial amount but they have also reduced the combined funded and bank debt to $333,140,242 on December 31 and of this amount the earliest important maturity is in 1946.

To take care of the increasing traffic the road's equipment is in better than average condition. Of the 904 locomotives on hand at the close of last year, 83.63 per cent were in good order while only 16.37 per cent were then in need of repairs. Despite the fact that the road had more than 1,100 locomotives in 1930, as compared with 200 less in 1939, the average tractive power per unit has increased more than 6,700 pounds, thus permitting greater hauling power per unit without adding substantially to operating costs.

At the close of 1939 Great Northern Railway had 49,149 freight cars on the line. This was moderately below the number of cars on the line in 1938. Due to modernization and new light weight construction methods, the average freight capacity of the freight cars in service has been increased from 43.38 tons per car in 1935 to 45.28 tons per car in 1939. As older units are retired, the average carrying capacity of the cars in service will continue to increase. Maintenance expenditures rose in keeping with gains in gross revenues although they were not sufficient to disturb the decline in the ratio of operating expenses to operating revenues, which was 65.9 per cent last year as compared with 68.8 per cent in 1938. Despite the fact that since the close of 1939 maintenance expenses have been running about 6 per cent above those of a year ago, operating ratios have continued to decline and were about 61.9 per cent for the month of June as compared with 63.6 per cent for the same month of 1939.

Great Northern Railway has been characterized by a much better than average earnings record since the base of the depression reached in 1932, although operations did not become sufficiently profitable until 1935 to make something available for the capital stock. Since 1935, fixed charges have not *(Please turn to page 643)*



For Profit and Income

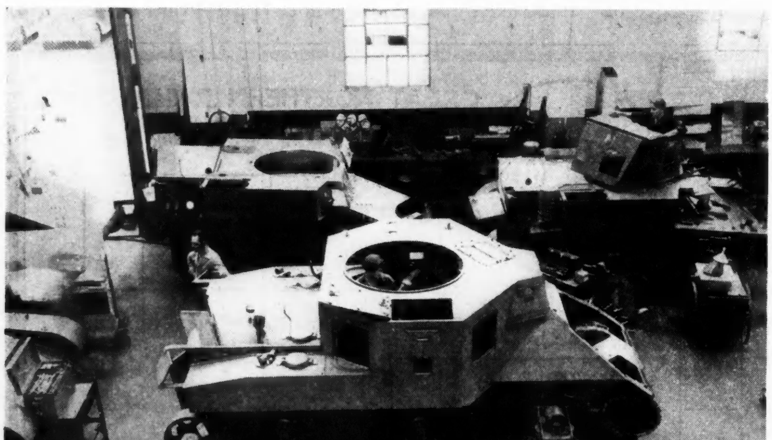
Up and Active

In the first week of the late August rally, although the market as a whole could generate very little interest and volume, some individual issues stood out. Among the list of most active and most powerful were two preferred stocks—**International Paper pfd.** up $3\frac{1}{4}$ and **Electric Power & light $7 pfd.** up $3\frac{1}{8}$. Both managed to continue their strength with further substantial gains during the next few days of inactivity.

International Nickel was also on the active list, leading the Canadian stocks with the first independent rally Nickel has had since the war began. It was up $5\frac{1}{8}$ points on the week, with **Dome** up $2\frac{1}{2}$, **McIntyre** up 3 and **Noranda** $3\frac{5}{8}$. The buying failed to carry through when markets turned dull again.

Individual gains worth noting were the $5\frac{1}{2}$ points of **Union Carbide,** the 6 points of **du Pont,** and the $4\frac{3}{4}$ of **Westinghouse,** no doubt stimulated by the realization that the electrical equipment industry has more unfilled orders on hand than at any time in its history and will enjoy an active demand from utilities and heavy industry for months to come. **U. S. Gypsum** rose $5\frac{1}{2}$ points in one week, then followed with better than 3 more in the next few days. Some of the operations represented switching, for **Columbian Carbon** was down a point against the trend of the market, **Case** was off $2\frac{3}{4}$, **Detroit Edison** $1\frac{1}{2}$, **Philip Morris** 2, and **Bower Roller Bearing** $1\frac{3}{4}$ on 100 shares of stock. Investment trusts were reported taking a hand in the market again, which would account for some of the determined switching.

The meat-packers lost their forward surge of recent weeks, based on the outlook for higher prices and the increases already in evidence, as **Armour, Cudahy** and **Wilson** all fell behind fractionally.



Wide World Photo

The Government's Rock Island arsenal is shown rushing its production of tanks, along with gun carriages, guns, ammunition and other equipment. Compared to the assembly line methods to be used when the big motor manufacturers get into production, this output of tanks is insignificant. However the arsenals have been useful as pilot plants for industry.

New Financing

Dow Chemical has filed with the S. E. C. for an offering of $15,000,000 ten-year debentures and 103,199 shares of common stock, the latter to be sold to stockholders at 100 in the ratio of ten new shares for each old one owned. This is the first offering to come under the relaxed rules on the twenty-day waiting period, and the presumption is that the S. E. C. will allow a shorter elapsed time before the issues may be brought out. Incidentally, news of the additional stock offering caused a drop in the stock on the Big Board, although doubts of the success of the offering are not present as they were in the case of Montgomery Ward, not so long ago.

Celanese Corp. brought out during the week an issue of $25,000,000 3% debentures, due 1955, at a price of 98. The company is experiencing a record demand for its products and increasing its earnings steadily, although not quite so sharply as was stated in our last Mid-Year Security Appraisal. Earnings for the first half were $2.94 a share, against $1.74 in the first half of 1940. If the two

A Year of War in the Market Leaders

	Closing Price Aug. 31, 1939	Closing Price Sept. 12, 1939	Index Based on Aug. Close as 100	Closing Price April 8, 1940	Index Based on Aug. '39, Close as 100	Closing Price June 10, 1940	Index Based on Aug. '39, Close as 100	Closing Price Aug. 29, 1940	Index Based on Aug. '39, Close as 100	Index Based on June 10, '40, Close as 100
American Tel. & Tel	160⅞	165¾	103	175	109	149	93	160¾	100	108
Bethlehem Steel	57¾	98⅛	169	81¼	140	67	115	77⅞	135	116
Chrysler	78⅛	90⅞	117	90½	116	54½	70	73	93	134
Commonwealth Edison	29⅜	28⅜	97	33	113	26¼	90	30⅝	104	117
Corn Products	58	65¼	112	61½	106	45	78	50	86	111
Douglas Aircraft	59⅝	78½	131	87	146	72½	122	71½	120	99
du Pont	160	187⅝	117	189⅛	118	147⅞	93	166⅞	104	113
Eastman Kodak	166	150½	91	156	94	119	72	129	78	108
General Electric	35	41¼	118	39⅞	114	28½	82	33	94	116
General Foods	43⅝	38½	88	47¾	110	38⅛	89	41¾	95	109
General Motors	44½	55½	125	56	126	38⅝	87	46⅞	105	121
International Harvester	49	70	143	58¾	120	39	80	44½	91	114
International Nickel	46	45¾	100	35⅛	77	21	46	26⅝	58	127
Johns Manville	65	76	117	72	111	44	68	62½	96	142
Loew's	39½	31½	80	36½	93	22½	57	25¼	64	112
New York Central	12½	20¾	166	18	144	9⅝	77	11⅞	95	123
North American Co	21¾	21¾	100	23½	118	15⅜	71	19⅞	91	129
Pennsylvania R. R.	16⅛	24⅝	153	23½	146	16⅜	101	20⅛	124	123
Standard Oil of N. J	40½	52¾	130	43⅝	108	33	82	34⅛	84	104
Texas Corp	36½	50	137	47⅜	130	34⅜	94	35⅛	96	102
Union Carbide	78	93	119	85	109	60	78	72¾	93	121
United Aircraft	33¾	44¾	133	49½	147	40⅝	120	38⅛	113	94
United States Steel	46⅛	82½	179	63½	138	45⅛	98	52⅛	113	116
Westinghouse Electric	100½	118¼	118	114¼	114	82¼	82	99½	99	121
Woolworth	45¼	36½	81	41⅛	91	30¼	67	32¼	71	107
M. W. S. 40-Stock Index	97.96	115.28	119	110.50	113	77.75	79	89.41	91	114

stock dividends paid this year are taken into account, the profits per share would be reduced to $2.86 and $1.61 for the two halves, respectively.

Record Orders

The Army and Navy have agreed on a joint order to cover their airplane engine requirements from **United Aircraft** through 1942. Amounting to about $160,000,000, the order involves some 17,000 Pratt & Whitney engines of from 500 to 2,000 horsepower. Handling it this way allows United to make long range plans, including a new $2,500,000 factory, and prevents the two services from bidding against each other, disrupting production schedules, and perhaps running up prices for parts and finished products.

Another joint arrangement by the Army and Navy of even larger size is with **Curtiss-Wright** for 20,000 engines and 14,000 propellers. **Lockheed** has received an order for 410 interceptor pursuit planes costing $30,278,782 and **Boeing** one for 277 heavy bombers at a cost of $70,449,955.

Among other large recent contracts is one with **Atlas Powder** for the construction of a $14,215,000 plant at Ravenna, Ohio. When finished, about ten months from now, the development will be operated as an amunition loading plant.

White and Tough

Kraft paper has one outstanding advantage—its strength. But its one handicap—its dark color—up to now could not be eliminated without weakening the fibers. **Mathieson Alkali** has just announced the development of sodium chlorite, which will bleach wood pulp, cotton, rayon and other materials without loss of strength or other desirable characteristics. Domestic pulp can be used to turn out kraft paper as white as book paper, according to the company, achieving two very cheering objectives at the same time.

The Factory with a Hole In It?

Driving along the Post Road or riding the New Haven Railroad through Port Chester, N. Y., you'll see a factory about the size of the average small-town school. Out of that building comes every Life Saver eaten in the country, and at last reports that was a good many. Jammed full with machinery that eliminates practically every hand operation, the heart, the lungs and the hands of the whole business are under one small roof.

Imagine the same factory in England, perhaps with a couple of anti-aircraft guns alongside it, certainly with an occasional bomb pointed in its general direction. Would you buy the stock?

There in a bomb crater is the mystifying thing about the ability of English investors to hold up their spirits. The dangers their companies face are far from theoretical; they are cataclysmic. Yet the London market has rallied persistently most of the summer, while ours has been timid to say the least. Also and still stranger, stocks are even hard to buy in France, where the whole future is an enigma.

The answer is partly in the realm of psychology, due to the fatalism the human mind develops when its worst dreads are actually at hand and known. It may lie even more definitely in the conviction that the

(Please turn to page 648)

New Records for Copperweld Steel

Output Running at Three Times Rate of 1929 Boom.

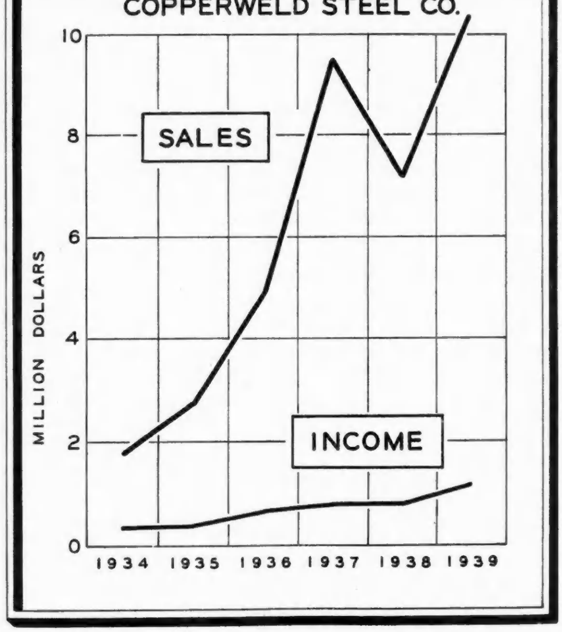
BY E. H. BARNES

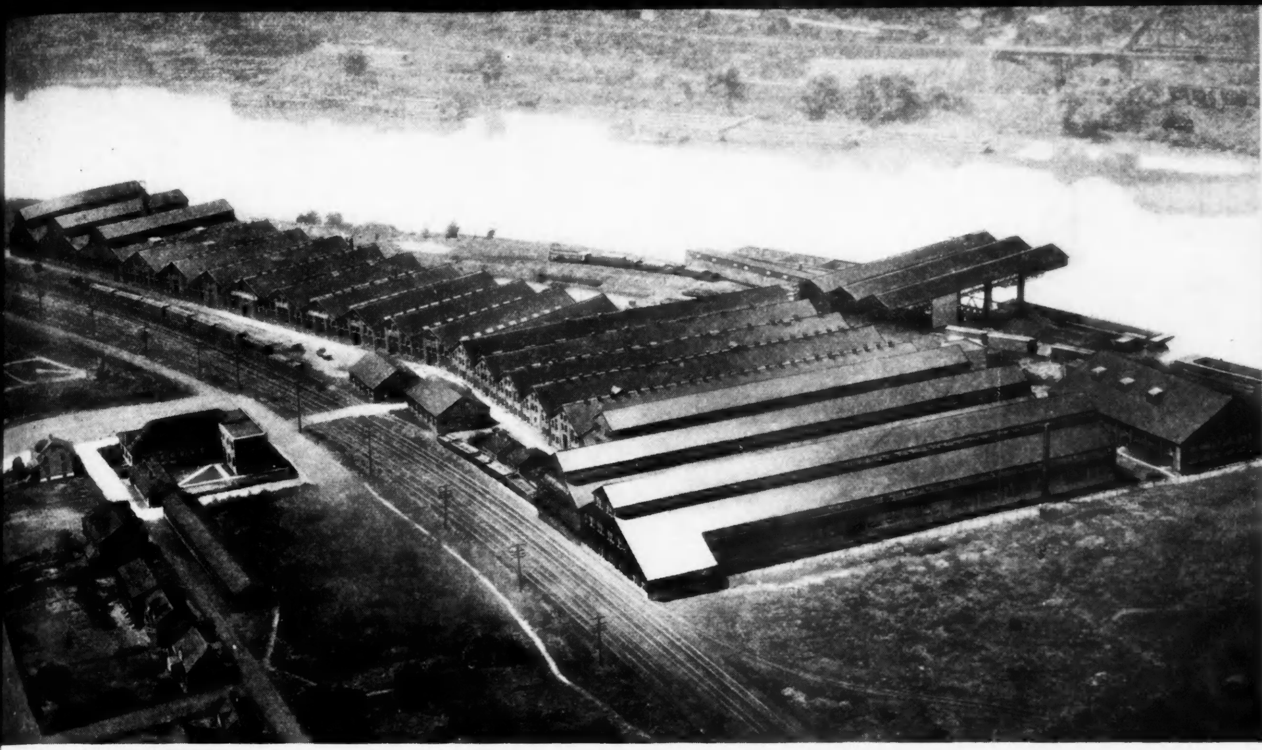
FOR purposes of transmission of electrical energy there is no common metal quite as efficient as copper. But copper has a number of drawbacks such as low tensile strength as compared with steel and extreme ductibility which does not permit it to be strung on long spans because of excessive sag. For the necessary strength to permit a fairly wide span between poles it is necessary to employ very large diameter copper wire which runs into heavy costs even though the larger diameter is not required for efficient electrical transmission. Moreover the heavy weight of the copper necessitates more and heavier poles, an item which may cost more than the wire itself. Steel, with its high tensile strength and lesser ductility, would be an ideal substitute for copper if it were not for several insurmountable characteristics which make its use for energy transmission generally impracticable. These characteristics are steel's avid thirst for oxygen, and hence quick rusting when exposed to the open air and moisture, and its inability to carry heavy currents as satisfactorily as copper.

Copperweld Steel Company has solved this problem by the ingenious combination of the two metals in a manner which preserves the basic strength and favorable characteristics of the ferrous metal, while at the same time protecting it from the unfavorable possibilities of atmospheric corrosion. In the manufacture of Copperweld, large round steel bars about 6 inches in diameter and about 4 feet in length are placed in refractory molds, the inside diameter of which is larger than the outside diameter of the steel bar. The steel bar and mold are heated to the required high temperature, and white hot, molten copper is poured into the space between the outside of the bar and the inside of the mold. The resulting Copperweld ingot is then hot rolled into rod, and cold drawn into wire in the usual manner. The wire is made in two grades having either 30 per cent or 40 per cent of the electrical conductivity of pure copper. The finished Copperweld wire has a strong steel core to which is permanently molten welded the thick copper exterior. All Copperweld wire and strand is guaranteed by the company to have the rust resisting life of solid copper under similar exposure conditions.

These characteristics of high strength and relatively low cost have made "Copperweld" wire particularly attractive to the public utilities, which are using more and more of this type of wire and other articles made in the same manner both for the transmission of power and communications as well. The economy inherent in the use of wire made in the "Copperweld" manner has resulted in a strong demand for it by the Rural Electrification Administration which has not only recommended its use in most of the projects financed by it, but also purchased Copperweld wire directly for the administration's own use.

The company fabricates its basic material into all of the conventional copper forms such as solid and stranded wire, cables, bond wires, anchoring materials for pole supports, ground rods, fences, barbed wire, nails, staples, revetment fabrics and a miscellaneous assortment of





Courtesy Copperweld Steel Co.

Main plant of the Copperweld Steel Company located on the Monongahela river at Glassport, Pa.

other products. Revetment fabrics are those wire mats that are commonly used to hold earth banks along roads and other works and will probably be in large demand for new work necessitated by the preparedness program. In addition to "Copperweld" products, the company also makes a similar line of materials fabricated from pure copper and bronze.

Up until comparatively recent times, Copperweld Steel Co. purchased all of its raw materials on the outside. While the company is still dependent upon outside suppliers of copper, the construction of a modern electric furnace alloy steel plant near Warren, Ohio, now permits the company to make its own alloy steel. Only a small part of the plant's capacity will be required in the company's own operations, thus placing the company in a position to be a material factor in the alloy steel industry. Improvements of the newest plant permit the production of about 100,000 tons of alloy steels yearly, while the Copperweld Division of the company, which is located just outside of Pittsburgh, Pa., has a casting capacity of 5,300,000 lbs. of billets monthly if operated on three 40-hour shifts weekly. The fabricating departments can handle the output of the casting mill in two 40-hour weekly shifts, thus leaving a 33 per cent margin for increased output with but the addition of the necessary help. With some possibility that zinc may rise in price as the demand for this metal increases, copper—because of its corrosion resisting powers—may be used as a substitute for many galvanized iron products if they are made in the same manner as the "Copperweld" materials.

Sales facilities have been world wide, but all of the foreign markets have been covered by agents rather than through subsidiaries or owned organizations. Of the foreign nations, Canada and England—including possessions and Dominions—have been the principal over-seas customers. American distribution is obtained through domestic dealers and 6 sales offices located in New York, Chicago, Dallas, Atlanta, Cleveland and San Francisco. Export sales have never been highly important contributors to sales volume, although General Cable Corp., the fabricating subsidiary of American Smelting and Refining Co., buys "Copperweld" rods for further processing into wires, cables., etc., which are sold in quantity to foreign purchasers.

Although the Copperweld Steel Company has been in existence since 1915, the products did not meet with any great public demand until about 1935. True, sales reached a pre-depression peak of $3,400,000 in 1929, but they were relatively small when the heavy volume of utility purchases in that year is considered. From 1929, sales declined slowly until they reached a low point of $1,244,000 in 1933. From that time on the growth of sales has been rapid and last year reached a new high figure of $10,446,000, or better than 3 times greater than in the boom-year of 1929.

While sales have been gaining sharply during the past 6 years, earnings have not been lagging far behind. For instance, in 1934, net income was but $121,815, but by 1939 this figure had increased to $934,348, and from the figures available for this year it is probable that net income will cross the million dollar mark despite the increase in taxes and other uncontrollable items. Earnings per share of common stock are not strictly comparable since there have been changes in the capital set-up during the period under discussion which added an issue of 50,000 shares of 5 per cent, $50 par value preferred stock during the last half of 1939 after a 2-for-1 split-up of the common stock in January of the same year which brought the common stock outstanding up to 431,714 shares on December 31, 1939. Since that time the amount of common stock *(Please turn to page 648)*

Probable Gains in Earnings Penalized in Varying Degree by New Levy

Evaluating the Leaders Under Excess Profits Tax

BY JOHN LLOYD

THE tax bill which Congress is now considering has reached a form sufficiently definite so that its general effects can be predicted. It is in every respect a popular bill, since it aims at restricting the profits created by an armament boom; and it is in most respects a fair one, although there is no doubt that it will discriminate between companies without regard for their actual benefits from defense spending.

Highest estimates of its total yield range up to $400,000,000. This suggests two things: first, that more taxes are to come if any considerable part of the increased spending is to be paid for out of current income; second, that the present levy is not a very serious development for business. The probability of further taxes as soon as Congress gets around to it can not be denied. But the implication that this first step at taxing away the "excess" of the arms program profits is nothing for industry to worry about overlooks one important point. Somewhere around 90 per cent of all domestic corporations will be exempt by their small size from this tax. The remaining 10 per cent will pay it, and they are the firms that not only constitute the major industry of the country but represent the sum of the private investor's interests.

The numerous changes incorporated in the bill as it has undergone exhaustive but hurried study by Treasury officials and Congressional committees have had very little effect on its net meaning to business as a whole. Yet several of them have quite definitely altered the force of the levy as applied to particular companies. It is only sensible, therefore, to keep a reservation in mind when measuring its effect in specific cases. Although reports from Washington assert that the bill is in very near its final form, any calculations based on it are still tentative.

It is curious to find that the two extremes between immunity from the tax and rather complete susceptibility to it lie within the field of transportation. The railroads, with certain exceptions, have been earning very low rates of return on their invested capital for the last decade. Because the tax provides for a minimum exemption of 7 per cent on the first $500,000 of capital and 5 per cent on the balance, most railroads can multiply their earnings per share of common stock many times without becoming subject to it. The airlines, on the other hand, have their phenomenal growth over the last few years to thank for a vulnerable position under any handling of the tax yet suggested.

Provision for companies which habitually earn a high rate on their invested capital, and which are therefore not necessarily beneficiaries of the defense spending, is made by allowing an exemption of the average earnings over the last four years. If a company earned 20 per cent on its capital in each year since 1936, including the current year, it would be entitled to claim the average of 1936-1939 profits as an exemption. In that case, however, the normal tax of 20.9 per cent would be increased by a penalty of 4.1 per cent on the same base. In such a case—with earnings

Typical Results of New Taxation

	Earnings Per Share Before Excess Profits Tax 1939	1st half 1940	Est'd last half 1940	Approx. Excess Profits Tax 1940	Est'd 1940 Earnings After Tax	Recent Price	Average(a) Earnings 1936-39
American Can	$6.22	....	....	$.80	$6.00	97	$5.61
American Tobacco B	5.12	....	....	.25	5.50	73	4.70
Bethlehem Steel	5.75	$6.10	$8.90	4.00	11.00	78	3.87
Chrysler Corp	8.48	7.01	6.00	2.00	11.01	73	9.68
Du Pont	7.65	3.90	5.85	1.25	8.50	167	6.50
General Motors	4.06	2.52	2.50	1.00	4.02	47	3.98
Johns Manville	4.41	1.92	3.85	.75	5.02	63	3.93
Texas Corp	3.02	....	2.00	.50	3.75	35	3.57
Union Carbide	3.86	2.15	2.85	.50	4.50	73	3.79
U. S. Steel	1.83	2.72	7.80	2.50	8.02	52	3.19
Younstown Sheet & Tube	2.50	1.20	3.80	.50	4.50	31	....

(a)—Calculating largest annual deficit, if any, as zero.

completely steady all through the four years from 1936 to 1939 and also in 1940—the company would actually pay an "excess profits" tax of 4.1 per cent even though there had been no growth in profits due to an arms boom or any other cause. The penalty is simply for a high rate of return on capital which makes it more attractive to adopt the average earnings option.

Companies which ordinarily fail to show substantial profits in relation to their capital investment, such as the railroads, are by all odds the least injured by the tax. Even if they have been and are earning more than the 7 per cent on the first $500,000 and 5 per cent on the balance of capital, they may claim a credit of the average rate of return on capital over the last four years, up to 10 per cent. A reasonably prosperous company like Consolidated Gas of Baltimore, earning last year just under 10 per cent on its capital, can choose the invested capital option and thus escape the extra 4.1 per cent levied on those which elect the average earnings method of calculation.

One very important point to be remembered in any attempt to anticipate the effect of the tax—or of any tax, for that matter—is that the reports to stockholders and public frequently vary greatly from those to the Internal Revenue Bureau. No deception is implied in this; only a difference of opinion between the company and the tax agents as to what constitutes proper bookkeeping. In nine cases out of ten the company's own books are more conservative than the income tax reports would allow.

Still another possibility of variations in figuring the effect of the tax lies in the difficulty of arriving at the invested capital to be allowed by the Government. Partly for this reason the bill is being called in Washington the "tax lawyer's delight." Fights over its application will doubtless go on for years after the present emergency is ended. One example cited is that of a man who spent three years with expert help trying to arrive at an accurate figure for U. S. Steel's invested capital.

Debt is recognized as capital in full as to the first $100,000. Only two-thirds of the next $900,000 of bonds, notes, mortgages and bank loans is admitted as invested capital, and only one-third of the balance. However, equity capital, represented roughly by stock plus accumulated profits, is deducted from debt in calculating the amount of the latter admissible as capital. On any portion of debt included in the capital base, interest charges are eliminated as deductions.

None of these technicalities are needed to realize the wide differences in the status of individual companies under the bill. A company like General Electric, which earned less last year than its average over the last four, and which will show a relatively moderate increase over the average this year, will have as its principal worry the extra 4.1 per cent added to the normal tax as a penalty for using the average earnings option. Although General Electric earns considerably more than 10 per cent on invested capital, the steady nature of its profits will save it from a heavy tax.

Issues to be Heavily Affected By Proposed Tax

American Airlines
Bendix
Lockheed
Glenn Martin
N. Y. Shipbuilding
Square D
Thompson Products
Transcont'l & Western
United Aircraft
Vanadium

Issues to be Relatively Immune to Proposed Tax

American Telephone
General Electric
General Foods
Int'l Harvester
Louisiana & Nashville
Masonite
N. Y. Central
J. C. Penney
Pennsylvania RR
Union Pacific

United Aircraft, with earnings last year of close to 30 per cent on invested capital and far more in 1940, is in less favorable position so far as the tax is concerned. Average earnings over the past four years have been less than $2 per share, and before the excess profits tax should climb to better than three times that average in the current year. The result will be to impose a major burden on the growth in earnings. Westinghouse Electric has announced that in addition to its normal tax reserve of $1,000,000 a month it may be necessary to set aside another $500,000 in each month of the last half of 1940 in order to provide for the excess profits tax. In comparison with total earnings of slightly under $10,000,000 for the first half of a very good year, this additional diversion of income is a substantial penalty.

One quotation from the bill now being considered by the House will have an interesting meaning for certain companies: "There shall be levied, collected, and paid, *for each taxable year beginning after December* 31, 1939, on the excess profits net income, as defined in Section 711, of every corporation (except a corporation exempt under Section 725)—." Companies whose fiscal years do not coincide with the calendar year are therefore given a period of grace before their liability under the new bill becomes effective. While most firms are to be taxed on 1940 profits, such outstanding ones as Douglas Aircraft, with a fiscal year ending November 30, and International Harvester, its year ending October 31, will have until next year before they become liable for the new taxes. (Harvester earned slightly less than 4 per cent on its capital last year, and although it was a poor one, the company has a relatively comfortable position under the new tax even if earning continue to rise.) Most of the farm equipments, several motion picture, tire, building, and auto equipment firms will have this advantage due to the accident of their fiscal years. The same was true with the undistributed profits tax of several years ago.

For all companies the 1941 impact will presumably be heavier than that of this year. Not only is there a possibility that earnings will rise, bringing them into higher brackets under the tax, but the rates may also go up, or a harsher method may be substituted. Attention to the problem is forced more and more upon the investor, who is realizing the extent to which he is paying for defense.

National Biscuit Company

Increasing Sales Have as Yet Failed to Show Up in Better Earnings

BY STANLEY DEVLIN

As the country's largest baker of plain and fancy biscuits, and a number of other edible products as well, National Biscuit Company is bound to feel the effects of any sharp increase in consumer income such as that which is expected to be generated by increasing industrial activity due to the preparedness program.

The major effect of increased buying power would be, of course, higher sales volume; and in the normal course of events this should be translated into proportionately increased earnings. But the course of events is not normal now so that while tonnage may be increasing, other factors, such as price competition, foreign developments, and the relative inflexibility of selling prices in relation to raw material costs, have all combined to prevent the realization of increased earnings.

The fact that National Biscuit turns its inventory over nearly ten times a year indicates that the company does not follow the policy of long term commitments for probable raw material needs. This is borne out by the numerous official repetitions of the fact in annual statements of the company and elsewhere. In one respect, such a policy would be ideal since it would minimize the possibility of losses from "speculating" in raw materials—an evil which is frequently found in many industries, not excluding baked goods. The only drawback to this "hand-to-mouth" raw material buying policy is that selling prices of other than bulk goods cannot quickly be adjusted to meet higher raw material costs. The lag is relatively long with resulting lower profit margins and when prices are again in line with costs, consumer resistance to the new price levels often results in a decline in sales volume. Of course, in a period of falling raw material prices the reverse holds true.

Courtesy National Biscuit Co.

Lorna Doones going through the cutter.

Last year's tonnage sales were 7 per cent greater than those of 1938, a gain warranted by better consumer buying power, but profits, due to higher material costs which prevailed during the last part of the year, were almost 5 per cent below those of the earlier year. Tonnage sales for the first half of this year are not available although it is likely that they were lower than a year ago and that they account in part for the more than 12 per cent decline in net income reported for the initial semi-annual period as compared with that of a year ago. However, the second half of the year is normally the best from the standpoint of sales and it is likely that the somewhat lower raw material costs which now prevail will be reflected in the last half earnings.

Competition is the bug-bear of the baked goods industry and

despite the fact that National Biscuit is by far the largest in the field, it is not immune to competition's effects. And the heaviest competition does not come from the other nationally-known bakers, but rather from local concerns whose sales area is often confined to a few contiguous states or even counties. To overcome competitive advantage of local production, National Biscuit is constructing a new $3,200,000 bakery of modern design and high efficiency in Atlanta, Ga., and is working to modernize completely the plant in Denver, Colo. These two plants will effectively supply the southeastern and Rocky Mountain territories and permit the realization of somewhat better profit margins in these sales areas. Then too, expansion of product lines to include bran in packages for sale as a health food in addition to the present "Shredded Wheat" and "Wheatsworth" lines of breakfast foods may help to stabilize future earnings, although in common with most competitive products, efforts to popularize them will call for relatively heavy publicity expenditures.

New Taxes No Problem

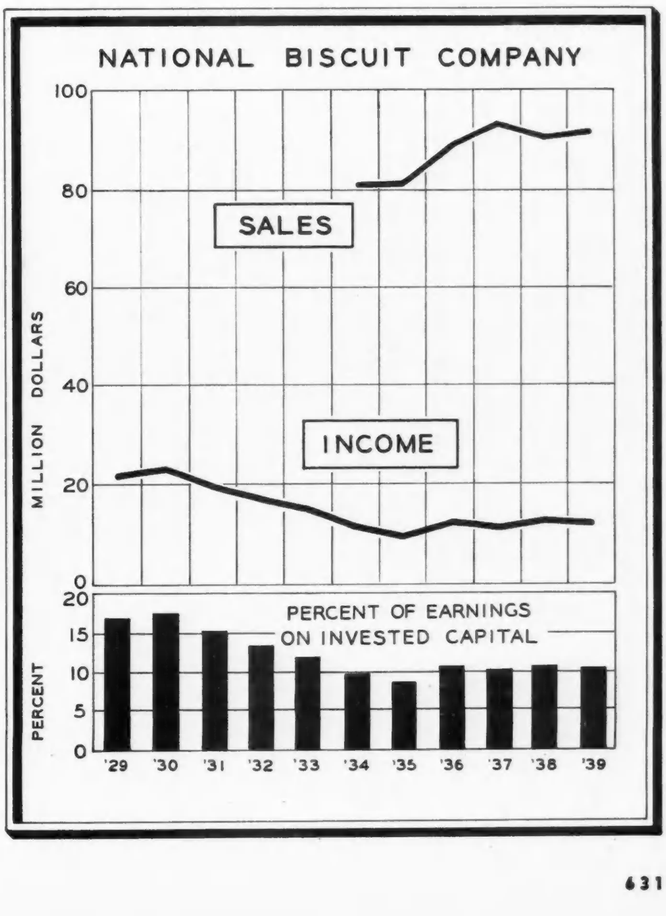
Considerable attention has been given to the fact that about 12 per cent of the company's total earnings accrue from foreign holdings. While this is true, only about 1/3 of the total foreign investment of the company is outside of North America and that part is in England. Total foreign investments are carried on the books at a value of $6,140,000 and of that amount, at the close of last year only $643,920 were net current assets. The company maintains that this sum was the least possible amount needed to do business. Adequate provision against further depreciation in their value was made last year as a charge against earnings. Some such similar charges will probably be necessary this year and thus may serve to restrict this year's earnings to some extent. Not all foreign business will be lost, although it is estimated that it will be reduced by a substantial amount. Over the longer term, the problem of repatriating assets and earnings will become increasingly difficult.

Earnings in the first quarter of this year ran approximately 5 per cent below those of the same period of 1939 when 38 cents a share of common stock was reported for the initial three months. For the second three months the differential between 1939 earnings and those of the second quarter of this year increased to slightly more than 20 per cent with net income being equal to 31 cents a share of common as compared with 39 cents a year ago. As a result, earnings for the first six months of this year—which are normally poor—were about 12½ per cent lower than in the first half of 1939. However, with better conditions prevailing in the third quarter and the good fourth quarter likely to be no less than that of a year ago it is probable that full year results will make a somewhat better comparison with those of a year ago than that which was indicated in the first six months of operations this year.

The company's financial position is substantial. At the close of 1939, current assets of $42,652,832 were 6.2 times larger than total current liabilities. Cash items alone, which amounted to more than $30,000,000 were themselves 4.4 times greater than the entire quick debt. The greatest item of total current-liability was the $4,825,559 reserves for Federal and foreign income taxes. There was no change in the capitalization which continues to consist of 248,045 shares of 7 per cent cumulative preferred stock of $100 par value and 6,289,448 shares of $10 par value common stock. New excess profits taxes are not likely to have any immediate effect upon the earnings of the company, since it is likely that this year's results will be moderately lower, if anything, than those of last year.

Although the $1.60 dividend rate was just covered by a slim margin last year, it is not probable that there will be any change in the rate this year. The company's strong financial position and the fact that better adjustment of future prices to costs will probably permit a mild betterment in earnings as time goes on will probably prevent any downward revision in the rate that has been maintained for the last three years.

The market value of the shares has long indicated that the average investor preferred the shares for their income possibilities, but did not value them as a medium of speculation. However, depressed levels of prices make the shares seem attractive for the good rate of income that they offer and should the general market strengthen at a later date. The shares may well be carried along if only by the momentum of the general move.



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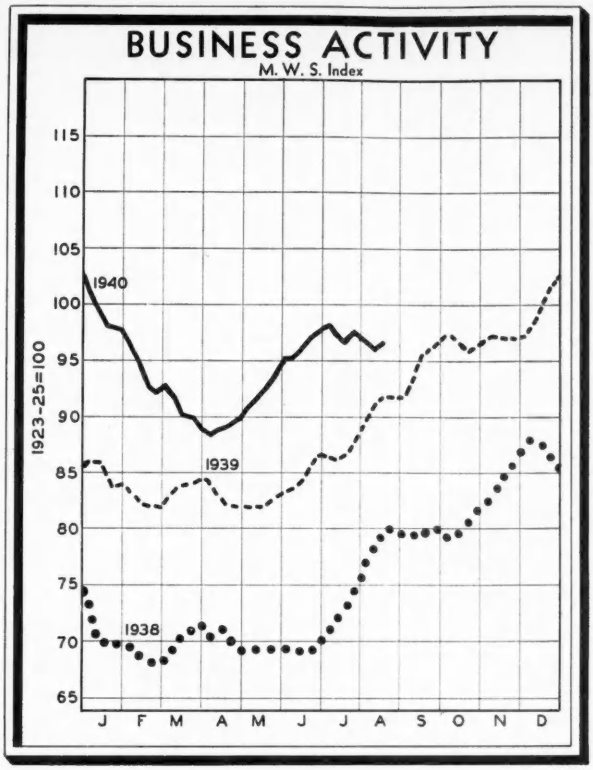


CONCLUSIONS

INDUSTRY — England's fortitude strengthens American prospects.

TRADE—Unseasonably cool weather boosts department stores sales.

COMMODITIES—A general rallying tendency has set in, raising prices moderately but definitely above their mid-August lows.

MONEY AND CREDIT—Effect of rising business activity are not yet visible in reports of commercial loans, which continue to decline for the country as a whole.

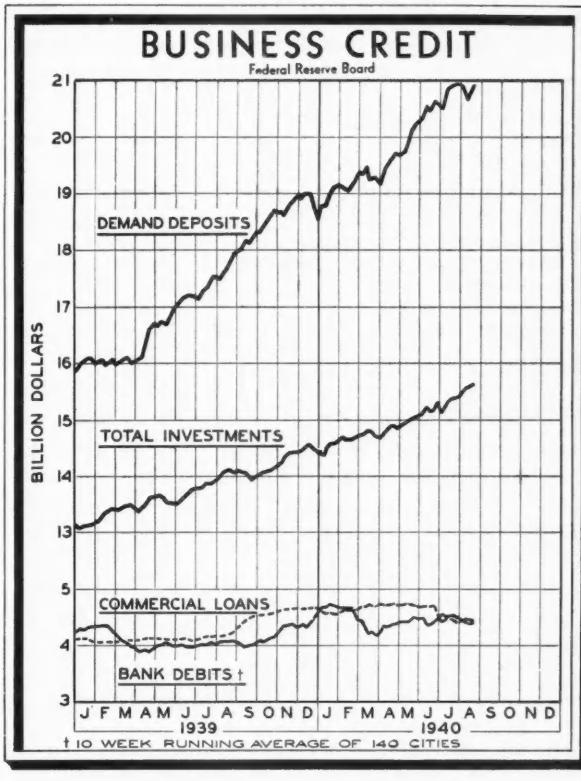
The Business Analyst

Per capita **Business Activity** has picked up a little since our last issue, with cotton cloth production and bank debits the only laggards among components of our business index. The Federal Reserve Board's new index of **Industrial Production** stood at 121 for July, unchanged from June, compared with a July figure of 119 for the Magazine of Wall Street's index of **Business Activity** computed on the same basis. England courageous showing against Nazi onslaughts has lifted some of the gloom from this side of the Atlantic and revived hopes that America may yet be granted time in which to put her own house in order. Obviously a prolonged abnormal demand for our exports, coupled with domestic expenditures for home defense, would afford a double stimulus to Business in this country.

* * *

There is little in our defense program as now planned, even if accompanied by an export demand of present proportions, to support fears of a lower living standard. A nation's standard of living may be defined as its per capita domestic retail sales of consumer's goods. Disregarding relatively unimportant changes in inventories, wastage and foreign trade balances, it is nearly as accurate to define the standard of living as per capita production of

(Continued on following page)



Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	July	121	121	104
INDEX OF PRODUCTION AND TRADE (b)	July	91	91	84
Production	July	91	90	83
Durable Goods	July	83	81	65
Non-durable Goods	July	96	96	94
Primary Distribution	July	90	90	79
Distribution to Consumers	July	93	96	89
Miscellaneous Services	July	88	89	85
WHOLESALE PRICES (h)	July	77.6	78.4	75.3
INVENTORIES (n. i. c. b.)				
Inventories	July	134	132	111
New Orders	July	131	117	90
Shipments	July	116	109	91
COST OF LIVING (d)				
All Items	June	86.4	86.0	84.7
Food	June	81.7	80.6	77.9
Housing	June	86.8	86.7	86.0
Clothing	June	73.1	73.1	72.0
Fuel and Light	June	84.2	84.1	83.4
Sundries	June	97.0	97.0	96.6
Purchasing value of dollar	June	115.7	116.3	118.1
NATIONAL INCOME (cm)†	1st 7 mos.	$41,600	......	$39,578
CASH FARM INCOME†				
Farm Marketing	July	$6.68	$577	$605
Including Gov't Payments	July	703	587	641
Total, First 7 Months	July 31	3,950	......	3,591
Prices Received by Farmers (ee)	July	95	95	89
Prices Paid by Farmers (ee)	July	122	123	120
Ratio: Prices Received to Prices Paid (ee)	July	78	77	74
FACTORY EMPLOYMENT (f)				
Durable Goods	July	95.5	97.0	82.1
Non-durable goods	July	103.3	101.7	98.5
FACTORY PAYROLLS (f)	July	96.4	97.9	83.8
RETAIL TRADE				
Department Store Sales (f)	July	89	91	86
Chain Store Sales (g)	July	119	119	113
Variety Store Sales (g)	July	124	126	119
Rural Retail Sales (j)	June	137.7	138.8	131.7
Retail Prices (s) as of	July 1	92.9	92.8	89.1
FOREIGN TRADE				
Merchandise Exports†	July	$317.0	$350.5	$229.6
Cumulative year's total† to	July 31	2,384.6	......	1,645.7
Merchandise Imports†	July	232.3	211.4	168.9
Cumulative year's total† to	July 31	1,526.0	......	1,263.4
RAILROAD EARNINGS				
Total Operating Revenues★	1st 6 mos.	$1,995,597	......	$1,804,127
Total Operating Expenditures★	1st 6 mos.	1,497,536	......	1,400,744
Taxes★	1st 6 mos.	189,219	......	172,109
Net Rwy. Operating Income★	1st 6 mos.	242,367	......	165,623
Operating Ratio %	1st 6 mos.	75.04	......	77.64
Rate of Return %	1st 6 mos.	2.21	......	1.57
BUILDING Contract Awards (k)	July	$399	$325	$300
F. H. A. Mortgages				
Selected for Appraisal†	July	119.7	109.4	84.5
Accepted for Insurance†	July	88.1	84.4	52.6
Premium Paying†	July	60.3	54.4	51.2
Building Permits (c)				
214 Cities†	July	112.2	96.2	86.4
New York City†	July	12.6	18.8	16.3
Total, U. S.†	July	124.7	115.0	102.8
Engineering Contracts (En)†	July	348.9	252.8	181.5

PRESENT POSITION AND OUTLOOK

(Continued from page 633)

consumers' goods. So long as we have surpluses of material, labor and plant capacity to draw on, there is no reason why greater production for export and for home defense should necessitate curtailment of consumers' goods production. On the contrary, expanding production of non-consumers' goods will swell payrolls, thus creating a larger demand for, and hence production of, consumers' goods. Prospects then are for a rise, rather than a decline, in the national standard of living; though in individual instances heavier income taxes may somewhat reduce purchasing power. Such reductions, however, will be more than offset by the larger earnings of people now subsisting on Government relief who find private jobs at higher wages.

* * *

Not until retail prices begin to rise faster than payrolls will there by any impairment in the national standard of living. At present writing, just the opposite is taking place. Factory weekly **payrolls** are 16% larger than a year ago, while **retail prices** are up only 4%; so that the standard of living among employed factory workers is now 4% higher than last year. **Wholesale prices** are up only 3.5%. **Farm income** during July, including benefit payments, was 10% above last year, compared with an eleven-months' rise of only 8%. The Bureau of Agricultural Economics estimates that this year's farm income will be about $8.9 billions, or 5% ahead of last year, despite the drop in export demand for farm products.

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Rural sales for July were 6% above last year. **Department store sales** in the week ended Aug. 17 were 7% above last year, compared with a four-weeks' increase of 8%. Merchandise **exports** during July were 38% ahead of last year, compared with a 48% increase in June and a gain of 45% for seven months.

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Railroad net income in July is estimated at $11,000,000, the largest for any month this year. The carriers will probably not be hit by excess profits taxes, owing to low rate of return on invested capital. Railway officials estimate that the **carloadings** peak this autumn may reach 900,000, compared with 861,000 in the busiest week last year. This will necessitate purchase of many more **freight cars** than the 55,000 ordered in 1939; but it is believed that not many new **locomotives** will be needed to handle the heavier load.

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Building contracts let during July in 37 states east of the Rockies were the largest in ten years, and 33% above the like month of 1939 compared with a seven-months' gain of only 1%. **Engineering construction** awards in the week ended August 22 were 109% ahead of the like period a year ago, making a cumulative gain of 4% for the year to date. Building material companies during the second quarter earned 50% more than last year, against a 33% increase for the first half.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	July	5,595	5,533	3,565
Pig Iron Production in tons★	July	4,054	3,819	2,639
Shipments, U. S. Steel in tons★	July	1,297	1,210	745
AUTOMOBILES				
Production				
Factory Sales	July	231,703	344,636	209,343
Total 1st 7 Months	July 31	2,660,231	......	2,171,256
Registrations				
Passenger Cars, U. S. (p)	1st 6 mos.	1,814,814	......	1,409,102
Trucks, U. S. (p)	1st 6 mos.	291,118	......	248,826
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	July	415.3	400.1	302.6
Shipments, U. S. & Canada★ (tons)	July	423.7	423.6	297.1
Mill Stocks, U. S. & Canada★ (tons)	July 31	189.6	198.1	219.1
LIQUOR (Whisky)				
Production, Gals.★	July	5,200	8,187	3,711
Withdrawn, Gals.★	July	5,475	8,337	4,334
Stocks, Gals.★	July	479,189	480,945	477,149
GENERAL				
Paperboard, new orders (st)	June	437,874	517,221	383,371
Machine Tool Operations	July	88.3	92.3	65.8
Railway Equipment Orders (Ry)				
Locomotive	July	51	31	4
Freight Cars	July	5,846	4,235	0
Passenger Cars	July	36	2	2
Cigarette Production†	July	15,913	17,565	14,260
Bituminous Coal Production★ (tons)	July	36,080	32,340	29,391
Portland Cement Shipments★ (bbls.)	June	13,216	13,241	12,715
Commercial Failures (c)	July	1,175	1,114	1,153

PRESENT POSITION AND OUTLOOK

Owing to depleted field stocks consequent upon stoppage of manufacture while retooling, domestic retail sales of new **automobiles** during August were probably no larger than a year ago. For the first 20 days, sales showed an increase of only 9%. Leading companies have speeded up plans for their 1942 models by about two months; though no serious bottlenecks are expected to result from the nation's defense program.

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Production of **bituminous coal** during the third quarter averaged at least $40,000,000 weekly—the highest for any like period since 1929. The Lumber Survey Committee estimates **lumber** consumption for 1940 at 28 billion board feet, about 6% above last year. Requirements for national defense during the next 12 months should range between 4 and 5 billion feet.

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Cigarette production in July was 14% ahead of the like period of 1939, compared with a seven-months' gain of only 7%. Production of cigars, snuff and other tobacco products rose only 1% during seven months. **Shoe** production in the first seven months was 8.6% below the like period of 1939; but will be stimulated by army orders, which already amount to 3,000,000 pairs—valued at $9,000,000.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Aug. 17	96.7	96.3	91.9
ELECTRIC POWER OUTPUT				
K. W. H.†	Aug. 24	2,571	2,606	2,355
TRANSPORTATION				
Carloadings, total	Aug. 24	761,002	743,121	688,591
Grain	Aug. 24	44,310	43,348	43,604
Coal	Aug. 24	134,931	135,272	123,893
Forest Products	Aug. 24	38,038	36,355	31,953
Manufacturing & Miscellaneous	Aug. 24	298,405	285,607	265,199
L. C. L. Mdse	Aug. 24	151,190	149,891	154,170
STEEL PRICES				
Pig Iron $ per ton (m)	Aug. 20	22.61	22.61	20.61
Scrap $ per ton (m)	Aug. 20	19.08	19.00	15.62
Finished c per lb. (m)	Aug. 20	2.261	2.261	2.236
STEEL OPERATIONS				
% of Capacity week ended (m)	Aug. 29	91.5	90.3	63.5
CAPITAL GOODS ACTIVITY (m) week ended	Aug. 24	87.5	85.1	65.3
PETROLEUM				
Average Daily Production bbls.★	Aug. 24	3,508	3,519	1,691
Crude Runs to Stills Avge. bbls.★	Aug. 24	3,485	3,510	3,472
Total Gasoline Stocks bbls.★	Aug. 24	85,770	86,441	73,475
Fuel Oil Stocks, bbls.★	Aug. 24	79,766	79,258	87,229
Crude—Mid-Cont. $ per bbl	Aug. 23	1.02	1.02	.82
Crude—Pennsylvania $ per bbl	Aug. 23	1.48	1.48	1.48
Gasoline—Refinery $ per gal	Aug. 23	.054	.056	.06

PRESENT POSITION AND OUTLOOK

Electric power output continues to range between 9% and 10% above last year. Earnings of the utility industry for the first six months topped last year by about 6%, and probably showed nearly the same rate of increase during the third quarter. Since a number of new plants erected for the production of war materials will generate their own power, it is believed that the industry may find itself with an over-reserve of capacity when the present expansion program is completed; but should be able to absorb such a surplus through load-building drives which proved so successful only a few years ago.

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While the **steel operating rate** has risen since our last issue to the best level of the year, third quarter prices have just been re-affirmed for the fourth quarter. Present prospects are that the industry will continue to operate at near capacity for months to come.

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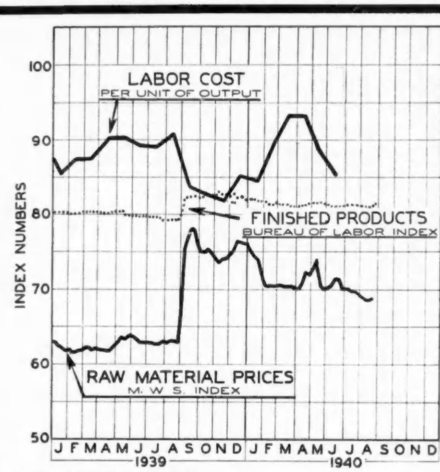
Though **oil** industry profits in the second quarter were at least 70% better than for the like period of 1939, the third quarter failed to make quite such a good showing—largerly because of price weakness in **gasoline** and **fuel oils.** The industry, however, is now working into stronger statistical position through a better balanced relation of gasoline to fuel oil production.

†—Millions. ★—Thousands. (a)—Revised Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1936—100. (p)—Polk estimates. (pc)—Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

Since the middle of August there has developed a tendency toward firmness in the commodity average, not participated in by all individual raw materials but nevertheless a definite change from the sagging and persistent weakness which preceded it. The connection between this movement and the resumption of the business uptrend is not yet to be stressed. But it is quite likely that as defense orders begin to compete with private needs for the industrial raw materials some heartening influence on the commodity markets as a whole will be felt. The base for the current youthful rally is still well below the lows set last May and June on the bad news from Europe. Part of the action since then has been in response to fears that the situation over there was certain to grow worse. If nothing better than a period of quiet should now ensue, some recovery from the mid-August levels is understandable.

Such developments as the recent trouble in the Balkans may account for flurries. Basically, however, the world situation is still completely upset and subject to changes which can hardly be predicted on any of the normal bases.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	1940 High	1940 Low	Aug. 29	Aug. 23
28 Basic Commodities	124.2	105.6	107.4	105.9
Import Commodities	132.9	104.7	106.0	104.7
Domestic Commodities	118.7	105.5	108.3	106.6

	1940 High	1940 Low	Aug. 29	Aug. 23
Domestic Agricultural	123.8	111.4	114.5	112.5
Foodstuffs	120.0	100.5	104.2	109.3
Raw Industrial	128.4	101.3	109.8	101.3

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
October	Aug. 29	9.23	9.24	8.23
December	Aug. 29	9.18	9.23	8.29
Spot	Aug. 29	9.89	9.94	8.35
(In bales 000's)				
Consumption, U. S.	July	598	557	521
Exports, wk. end	Aug. 23	3	12.4	54
Total Exports, season Aug. 1 to	Aug. 23	38.6	......	194
Government Crop Est.	Aug. 1	11,429	......	11,817(ac)
Active Spindles (000's)	July	21,917	21,943	21,915
WHEAT				
Price cents per bu. Chi. closing				
September	Aug. 29	71⅝	70⅝	62½
December	Aug. 29	74⅛	72⅝	64
Exports bu. (000's) since July 1 to	Aug. 17	15,146	13,390	16,103
Exports bu. (000's) wk. end	Aug. 17	1,256	1,551	3,341
Visible Supply bu. (000's) as of	Aug. 17	157,343	156,171	146,520
Gov't Crop Est. bu. (winter) (000's)	Aug. 1	760,623	......	754,971(ac)
CORN				
Price cents per bu. Chi. closing				
September	Aug. 29	61⅛	60⅞	50⅝
December	Aug. 29	57⅛	55⅜	49
Exports bu. (000's) since July 1 to	Aug. 17	5,684	5,486	519
Visible Supply bu. (000's) as of	Aug. 17	24,905	25,026	14,892
Gov't Crop Est. bu. (000's) (final)	Aug. 1	2,248,246	......	2,619,137(ac)

PRESENT POSITION AND OUTLOOK

Cotton. On Tuesday of last week the Commodity Exchange Commission announced that daily trading and net positions in speculative cotton transactions would be limited to 30,000 bales beginning Sept. 5. This ruling should have little effect on the present dull market, but it remains to be seen what the effect will be in a period of broad market swings. The export subsidy on cotton goods announced ten days ago was expected. Rate increases range from 1.30 cents to 2.80 cents a pound. Exports of American cotton goods for the first six months of this year were in excess of those for the like period of last year.

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Wheat. With loan levels about 15 cents above the cash price of wheat, it is estimated that between 80 and 90 per cent of the spring wheat received at Minneapolis, so far this season has gone into loan. The question of storage for the surplus wheat is causing great concern in both the United States and Canada. The trade continues to watch closely the present crisis in southeastern Europe.

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Corn. There were reports last week from Washington that the loan rate on corn this year may be raised about four cents above the rate last year of 57 cents. Loans rates are not established until November 15.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Aug. 29	11	11	11.75
Export f. a. s. N. Y.	Aug. 29	9.90	9.90	11.55
Refined Prod., Domestic*	July	90,995	86,077	57,339
Refined Del., Domestic*	July	71,226	61,716	59,681
Refined Stocks, Domestic*	July 31	215,823	199,586	316,543
Copper Sales, Domestic*	July	58,495	112,120	183,151
TIN				
Price cents per lb., N. Y.	Aug. 29	50⅝	50⅝	52.0
Tin Plate, price $ per box	Aug. 29	5.00	5.00	5.00
World Visible Supply† as of	July 1	31,869	28,873	30,039
U. S. Deliveries†	July	7,325	9,225	5,275
U. S. Visible Supply† as of	July 31	6,567	5,300	5,339
LEAD				
Price cents per lb., N. Y.	Aug. 29	4.90	4.90	5.05
U. S. Production*	July	44,596	42,306	37,021
U. S. Shipments*	July	52,560	49,904	42,636
Stocks (tons) U. S., as of	July 31	47,360	55,343	124,017
ZINC				
Price cents per lb., St. Louis	Aug. 29	6.50	6.50	4.75
U. S. Production*	July	51,944	48,660	39,669
U. S. Shipments*	July	57,661	53,935	43,128
Stocks U. S., as of*	July 31	59,510	65,227	131,782
SILK				
Price $ per lb. Japan xx crack	Aug. 29	2.52½	2.53	2.58
Mill Dels. U. S. (bales)	July	25,621	17,307	26,134
Visible Stocks N. Y. (bales) as of	July 31	40,356	41,822	25,748
RAYON (Yarn)				
Price cents per lb	Aug. 29	53.0	53.0	51.0
Consumption (a)	July	32.7	31.4	32.9
Stocks as of (a)	July 31	11.4	12.8	25.0
WOOL				
Price cents per lb. tops, N. Y.	Aug. 29	1.04	1.00	92
Consumption, period ending (a)	July 1	19,373	17,065	23,772
HIDES				
Price cents per lb. No. 1 Packer	Aug. 29	10	9¾	12
Visible Stocks (000's) as of	July 1	12,753	12,516	13,151
No. of Mos. Supply as of	July 1	8.5	7.6	8.1
Boot and Shoe Production, Prs.★	July	32,000(pl)	27,000	34,212
RUBBER				
Price cents per lb	Aug. 29	19.25	19.57	18.90
Imports, U. S.†	July	69,474	53,889	37,372
Consumption, U. S.†	July	47,011	46,506	44,975
Stocks U. S. as of	July 31	190,222	168,235	165,450
Tire Production (000's)	July	4,854	5,127	4,595
Tire Shipments (000's)	July	4,348	6,927	5,143
Tire Inventory (000's) as of	July 31	9,345	8,881	8,103
COCOA				
Price cents per lb. Sept	Aug. 29	4.38	4.24	4.45
Arrivals (bags 000's)	July	565.5	352.4	231.7
Warehouse Stocks (bags 000's)	Aug. 29,	1,170	1,169	1,374
COFFEE				
Price cents per lb. (c)	Aug. 29	6⅝-⅞	6⅞	7¼
Imports, season to (bags 000's)	Aug. 1	14,026	12,762	13,878
U. S. Visible Supply (bags 000's)	Aug. 1	1,374	1,486	1,422
SUGAR				
Price cents per lb.				
Raw	Aug. 29	2.66	2.61	3.24
Refined (Immediate Shipment)	Aug. 29	4.20-4.35	4.35	4.40
U. S. Deliveries (000's)*	7 mos.	3,700(pl)	......	3,520
U. S. Stocks (000's)* as of (rr)	July 1	1,033.3	2,247.2	928.7

PRESENT POSITION AND OUTLOOK

Copper. The Bureau of Foreign and Domestic Commerce reports that during the first seven months of this year exports of refined copper from the U. S. to England totaled 54,285 tons as against 13,254 tons shipped in the like period of last year. This large buying is likely to continue because it is evident that sources within the Empire are unable to supply needed tonnage. Domestic copper consumption for the month of August will be the largest for 1940 with the exception of January.

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Tin. During July only two of the principal producing countries were able to meet the 130% quota, these countries being the Netherlands East Indies and Nigeria. On the basis of quotas, Bolivia shows an excess of cumulative arrears of over 10,000 tons. World production of tin in July declined to 18,800 tons compared with the 20,100 of July of last year.

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Lead. Prices of lead continue firm and demand good because of the strong statistical position with stocks equal to less than a month's supply and shipments best in almost a year.

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Zinc. In the first seven months of this year zinc imports totaled 75,571 tons as against 9,370 tons in the corresponding period of last year. Shipments abroad amounted to 35,022 tons in the first seven months as compared with only 168 tons.

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Silk. Raw silk futures at the close of the week continued steady with most of the activity made up of switching operations.

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Rayon. Prices of rayon remain firm with shipments and stocks in a favorable position.

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Wool. The Bureau of Agricultural Economics reported last week that the estimated domestic consumption of wool in the last half of 1940 would be larger than in the first half. Cash prices at New York advanced over three cents as trade sentiment improved.

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Hides. Active British buying in the Argentine market has absorbed much of supply. Reports that South America and South Africa had reduced slaughterings were encouraging because this would reduce hide supplies. There is a possibility that the U. S. may acquire stocks of hides against future emergency.

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Rubber. The International Rubber Regulation Committee in its current bulletin reports that world consumption in June amounted to 81,000 as against 97,000 tons in the previous month. The July figures probably will reveal a further decline. Crude rubber consumption in the U. S. for the first seven months totaled 350,242 tons as compared with 326,390 in the same period of last year.

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Sugar. A quota reduction of 136,383 tons to 6,471,362 tons was announced last week by Secretary of Agriculture Wallace. Cuba's quota reduction was the largest amounting to 113,421 tons. In spite of this new downward revision the supply is still moderately excessive.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (pl)—Preliminary. (rr)—Raw and refined. ★—Thousands.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Aug. 31	1¼%	1¼%	1¼%
Prime Commercial Paper	Aug. 31	½-¾%	½-¾%	½%
Call Money	Aug. 31	1%	1%	1%
Re-discount Rate, N. Y.	Aug. 31	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Aug. 17	2,643	2,404	2,539
Cumulative year's total to	Aug. 3	85,176	......	76,716
Bank Clearings, N. Y.	Aug. 17	2,486	2,714	3,305
Cumulative year's total to	Aug. 3	93,164	......	96,425
F. R. Member Banks				
Loans and Investments	Aug. 21	24,180	24,121	22,340
Commercial, Agr., Ind. Loans	Aug. 21	4,455	4,461	3,938
Brokers Loans	Aug. 21	377	376	639
Invest. in U. S. Gov'ts	Aug. 21	9,411	9,427	8,533
Invest. in Gov't Gtd. Securities	Aug. 21	2,583	2,579	2,274
Other Securities	Aug. 21	3,677	3,609	3,355
Demand Deposits	Aug. 21	20,956	20,789	17,835
Time Deposits	Aug. 21	5,346	5,336	5,250
New York City Member Banks				
Total Loans and Invest.	Aug. 28	9,568	9,600	8,379
Comm'l, Ind. and Agr. Loans	Aug. 28	1,691	1,691	1,545
Brokers Loans	Aug. 28	259	273	467
Invest. U. S. Gov'ts	Aug. 28	4,030	4,048	3,155
Invest. in Gov't Gtd. Securities	Aug. 28	1,372	1,373	1,147
Other Securities	Aug. 28	1,429	1,428	1,221
Demand Deposits	Aug. 28	9,727	9,732	8,195
Time Deposits	Aug. 28	714	710	647
Federal Reserve Banks				
Member Bank Reserve Balance	Aug. 28	13,516	13,419	10,951
Money in Circulation	Aug. 28	8,006	7,976	7,141
Gold Stock	Aug. 28	20,871	20,800	16,638
Treasury Currency	Aug. 28	3,034	3,030	2,905
Treasury Cash	Aug. 28	2,291	2,291	2,327
Excess Reserves	Aug. 28	6,490	6,420	4,800
NEW FINANCING (millions of $)				
Corporate	July	270.6	111.6	230.4
New Capital	July	45.0	9.4	49.7
Refunding	July	225.6	102.3	180.7

COMMENT

The Senate committee on banking and currency is working steadily on a long range program for the nation to be opened to public suggestion and criticism some time after the election. The huge gold holdings of the United States and their possible uses in the future will be one of the major subjects of discussion, together with the fiscal policies to be followed in any attempt to build up our foreign trade after the war. Presumably the hearings will also consider the wisdom of loans to South America based on or in terms of gold.

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Banking, fiscal and monetary reconstruction after the war ends is the primary goal of the committee. Since any co-operative effort in the rehabilitation of Europe on the part of this Government will require a fully up to date and efficient system behind it, the plans now being made for the future will have important results. Among possible practical accomplishments is a complete re-shuffling of functions between the several monetary controls in federal hands, looking toward smoother operation in times of stress.

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The condition statement of **member banks** in 101 cities showed an increase of $167,000,000 in demand deposits and a decline of $6,000,000 in commercial, industrial and agricultural loans in the week ended August 21. Loans of **New York City banks** alone were down $12,000,000 on the week, so the rest of the nation increased its borrowing. Holdings of "other securities" were up $68,000,000 in 101 leading cities and $66,000,000 in New York City. Holdings of United States Treasury bills were $14,000,000 higher in New York City and up only $2,000,000 at all reporting member banks.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues	(1925 Close—100)	1940 Indexes High	Low	Aug. 17	Aug. 24
309	COMBINED AVERAGE	67.1	45.3	47.9	49.3
5	Agricultural Implements	103.6	63.6	66.6	66.4
6	Amusements	28.8	15.8	15.8	16.4
15	Automobile Accessories	96.2	65.5	70.8	74.2
12	Automobiles	12.0	7.7	8.3	8.4
12	Aviation (1927 Cl.—100)	235.5	151.8	151.8	161.5
3	Baking (1926 Cl.—100)	12.3	7.9	8.8	9.4
3	Business Machines	117.3	75.1	82.6	83.6
9	Chemicals	174.1	120.5	127.9	130.7
20	Construction	33.6	19.4	21.4	22.1
5	Containers	251.1	168.6	185.0	191.8
9	Copper & Brass	103.6	64.4	64.4	68.4
2	Dairy Products	33.6	24.7	25.4	25.9
7	Department Stores	20.9	13.8	15.4	16.0
6	Drugs & Toilet Articles	58.4	36.1	36.6	36.3
2	Finance Companies	272.1	164.3	180.8	181.3
7	Food Brands	117.8	78.4	83.9	86.1
3	Food Stores	56.1	37.7	43.0	44.1
4	Furniture	56.9	32.6	35.3	38.4
3	Gold Mining	968.7	551.4	567.0	627.7
6	Investment Trusts	24.5	15.5	15.6	16.1
3	Liquor (1932 Cl.—100)	164.2	109.1	125.6	131.5
9	Machinery	116.2	81.0	87.4	92.3

No. of Issues	(Nov. 14, 1936 Close—100)	1940 Indexes High	Low	Aug. 17	Aug. 24
100	HIGH PRICED STOCKS	68.30	49.40	51.37	53.53
100	LOW PRICED STOCKS	58.80	36.43	39.91	41.19
2	Mail Order	94.9	63.8	74.3	76.1
4	Meat Packing	70.0	41.9	41.9	41.5x
13	Metals, non-Ferrous	158.4	106.7	109.6	117.2
3	Paper	19.4	11.8	13.2	12.9
22	Petroleum	86.7	63.1	64.4	65.6
18	Public Utilities	57.6	35.1	42.4	43.5
3	Radio (1927 Cl.—100)	12.9	7.9	8.7	9.0
9	Railroad Equipment	53.2	34.3	36.3	37.3
22	Railroads	13.6	7.3	8.0	8.3
2	Realty	2.7	1.2	1.6	1.5
2	Shipbuilding	118.1	73.5	82.2	84.8
11	Steel & Iron	85.9	59.6	62.6	64.5
2	Sugar	32.7	17.4	17.4	17.3x
2	Sulphur	180.2	135.4	149.0	149.8
3	Telephone & Telegraph	47.5	30.5	33.4	34.0
4	Textiles	57.3	36.2	43.3	44.4
4	Tires & Rubber	15.3	8.4	8.8	9.0
4	Tobacco	90.2	72.8	72.9	74.3
4	Traction	43.5	32.7	38.9	39.4
4	Variety Stores	248.3	177.2	195.8	203.0
20	Unclassified (1939 Close—100)	103.9	67.3	69.9	72.4

x—New LOW this year.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Motor Products Corp.

What is the outlook for Motor Products Corp. now that automobile makers are using more decorative trim? Anything new on proposals for shut-downs next year? Do you happen to know if any of the new airplane models call for any equipment from Motor Products? I should think the company's instrument panels, frames and ventilating equipment might be adapted to plane use. I have 150 shares at 17½. Please analyze earnings and market prospects for the stock. —Mrs. J. J. B., Brooklyn, N. Y.

Motor Products Corp. has not as yet reported earnings for the first six months of 1940, but results for the first quarter were equal to a profit of $1.02 a share on the common stock, which was a good gain over the 17 cents a share reported in the corresponding period of 1939. Indications are that results for the full year will be well ahead of the deficit of $1.19 a share reported last year. The company is an important manufacturer of a broad line of automobile parts and accessories, including bumper guards, decorative interior trim, instrument panels, windshield frames, ventilating equipment and is engaged in nickel and chrome plating, as well as the application of imitation wood finishes to metal. Most of the products are used for original equipment purposes and while output is sold to nearly all auto manufacturers, Ford and Chrysler are the principal customers. Competition continues keen, but with automobile production expected to be at good levels over coming months, the auto equipment industry will naturally benefit therefrom. There is no definite information regarding the use of this company's products on airplanes, but orders from aircraft manufacturers would appear to be a possibility. Finances of the organization continue to be quite sound, the balance sheet as of the 1939 year-end, the latest available, disclosing current assets of $3,951,739, as against current liabilities of $866,237. A liberal dividend policy has been followed in the past when earnings permitted and so far in the current year two 50-cent dividends have been declared, and probabilities are that further disbursements will be made before the year-end. Capital stock outstanding in the amount of 391,254 shares represents the entire capitalization of the company. At present levels, the issue has a relatively good degree of capital appreciation potentialities. For possible price enhancement, as well as a reasonable yield, we advise retention.

Mohawk Carpet Mills

How is Mohawk Carpet situated as to imported wool inventories? Can the company still get wools from abroad? Would the domestic product be an adequate substitute? How do latest earnings and profit margins compare with last year? Is the sales pace of the first quarter being maintained? On your advice in 1939 I made a profit on these shares and subsequently repurchased 175 shares at 16. Would appreciate your counsel again.—Mrs. A. D. O'R., Hartford, Conn.

Mohawk Carpet Mills is one of the leading domestic manufacturers of rugs and carpets. Plants are located in Amsterdam, New York, with sales offices and warehouses distributed throughout the country at strategic points. Profits are largely influenced by volume sales since a change in accounting policy last year tends to lessen the effects of inventory fluctuations. Competition in the field is quite keen but usually not destructive and the industry as a whole is in a good position to benefit from higher levels of consumer purchasing power. For the first half of 1940, the company reported a profit of 93 cents a share, which compared with a profit of 95 cents a share in the corresponding period of the year before. Sales were up moderately but higher taxes tended to limit net income. Over coming months, sales may be at somewhat lower levels than for the first quarter of this year when buying was stimulated by price rises. However, sales for the year as a whole should

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be at good levels and profit margins can doubtless be maintained since higher costs can probably be passed along to the consumer. Inventories are adequate to support operations for some time ahead and no difficulty is expected to be experienced with regard to procurement of raw materials. Thus earnings for the full year should approximate the $3.29 a share reported for 1939. Finances continue to be quite sound, the balance sheet as of June 30, 1940, disclosing current assets of $12,635,211, against current liabilities of $2,017,-385. Capitalization is simple, the 546,000 shares of capital stock outstanding having the only claim on assets and earnings. The present dividend rate will doubtless be maintained and there is the possibility of some extra before the year-end. At current levels, the issue has a moderate degree of appeal for its appreciation possibilities as well as for the reasonable yield afforded and we recommend retention of your holdings.

Chicago Pneumatic Tool

I am contemplating purchase of an additional allotment of Chicago Pneumatic Tool common. I already hold 100 shares at 12⅜. Before doing so, however, I would like a detailed analysis of the present outlook; revenues from gas and diesel engines; repairs and replacements; present orders on hand; profit margins; earnings probabilities for full year of 1940. Have domestic operations entirely absorbed exchange losses on foreign operations?—B. K. V., South Bend, Ind.

Chicago Pneumatic Tool is a leading producer of pneumatic tools, electric tools, portable and stationary compressors, diesel and gas engines, rock drills and related equipment. Products are used in a wide variety of industries and demand from shipbuilders and aircraft manufacturers, as well as other fields allied to armament production and national defense, should continue high, and takings by other such industries as the electrical equipment, mining, automobile manufacturing and construction, should be well maintained over coming months. Foreign business accounts for about 40% of total volume and exchange fluctuations and restrictions have, of course, been to the disadvantage of the concern, but domestic business has fully offset such losses. In the first half of this year, the company reported a profit equal to $1.23 a share on the common stock, up sharply from the 9 cents a share reported for the first half of last year. Profit margins are believed to have been improved and operations with regard to all products should be at relatively good levels over coming months. Thus it is expected that earnings for the full year will be well ahead of income for 1939, which was equal to 33 cents a share. Finances have been maintained in a sound position, the balance sheet as of December 31, 1939, disclosing current assets of $10,830,-051, including cash of $1,035,574, as against current liabilities of $1,771,-953. Capitalization consists of 67,604 shares of $2.50 cumulative convertible prior preferred, convertible into 1 2/3 shares of common, 181,135 shares of $3 cumulative convertible preference, convertible into 1 1/3 shares of common, followed by 335,-320 shares of common stock. Dividend payments on the common are problematical. With all indications pointing toward further improvement in earnings over coming months, the shares of this company have a good degree of speculative appeal and we recommend retention of your present commitment on that basis. We feel, however, that additional purchases should be postponed temporarily in view of market uncertainties.

American Safety Razor

What earnings progress has American Safety Razor made with its Gem-Electric Dry Shaver? Are sales of Eveready, Star and Gem razors and blades being maintained at levels of last year? Is the company taking steps to expand sales in South and Latin America? Can present facilities be adapted to munitions and manufacture? Please appraise 200 shares purchased at 14 and advise on what action it would be best to take now. —Mrs. W. E. W., York, Pa.

American Safety Razor is an important domestic producer of safety razors and blades. Products are sold under the well known trade names of Gem Micromatic, Ever-Ready, Star and Gem-Lectric. In addition, a certain amount of diversification is obtained by the manufacture of shaving cream, brushes, etc. While sales of all products are believed to have been at relatively good levels during the current year, keen competitive conditions have tended to narrow profit margins and the company reported a profit of 26 cents per share in the first quarter of 1940, compared with 39 cents in the corresponding year earlier interval. While operations during the balance of this year may be somewhat better, it is expected that 1940 earnings will be somewhat below the $1.54 a share reported in 1939. European business has naturally been adversely affected by unsettled world conditions but the company has an aggressive management, which will doubtless make determined efforts to open up other foreign markets to offset losses from Europe. Finances are very satisfactory, current assets at the 1939 year-end totaling $4,530,-015, as against current liabilities of $595,292. Capitalization is simple, capital stock outstanding in the amount of 524,400 shares having the only claim on assets and earnings. It would seem that the current quarterly dividend of 20 cents a share is safe, but increases will doubtless have to await more satisfactory earnings. While the longer term outlook for the company is somewhat obscure, we feel that commitments may be retained for the time being in view of the satisfactory yield which is afforded at current prices.

Cerro de Pasco Copper

Earlier this year, I read with interest the Barnes article in your MAGAZINE on Cerro de Pasco's war outlook. Since then, Britain's blockade of Europe and U. S.'s cutting of shipments to the Far East have practically stopped this company's sales to foreign consumers. In addition, I presume the French orders have been cancelled or blocked by England. In view of U. S. ownership of this company, what are the chances of our government lowering the tariff barrer to aid our armament program? What is the far-term outlook? I have about made up my mind to liquidate 85 shares, purchased at 44¼, but will await your advice.—K. D. R., Buffalo, N. Y.

Cerro de Pasco has important properties located in Peru producing copper, silver, lead, zinc, gold and an undisclosed amount of bismuth. The two first named metals account for some 70% of sales. Because of the high United States copper tariff, the company has been practically excluded from the American market. Loss of European business due to the defeat of France as well as the blockade will doubtless result in lower sales of copper and lead, though sales of zinc, gold and bismuth in the United States will prob-

(*Please turn to page* 646)

No War Inflation . . . Why?

(*Continued from page* 613)

fell short of carrying the commodity level back to the average of 1926 by 12%, although industrial activity in the best months of 1936-1937 substantially exceeded the average of 1926. In the fourth quarter of last year industrial production topped the best three months of the winter of 1936-1937 by 7% but wholesale prices were 7% lower.

Over the boom period 1923-1929 industrial activity averaged 106, Reserve Board index; commodity prices averaged 98.5, Bureau of Labor Statistics index; in 1936 the production index averaged 105, the commodity index 80.8; in 1937 the production index averaged 110, the commodity index 86.3; for the first twelve months of the war period the production index, with August estimated, has averaged about 114, the commodity index about 78.

There is not only substantial evidence, therefore, of a secular downtrend in the commodity price level but also of *a decline in prices relative to industrial activity*. Taking the war period to date as a whole, this tendency has not been arrested. If anything, it has been accelerated.

In recent months the divergence between the course of prices and that of business activity has been especially notable. From the year's low in April this publication's weekly business index has shown an advance of approximately 9%. Over the same period the slow-moving wholesale price index has declined slightly, Moody's spot index has declined 2% and the Dow-Jones futures index has dropped, from the *low* of April, by more than 13%.

War demand for our goods is confined chiefly to the British Empire and, in far less degree, the Japanese. In the World War period our war goods markets included, in greater or lesser degree, the British Empire, France, Italy, Russia and Japan, with the United States itself going on a war footing in the spring of 1917.

That is not the only difference. The demands made upon our economy by the Allies in the World War were very general. Today they are highly selective — chiefly aircraft, machinery and steel. Again, the World War—as we can see now—was conducted on an amazingly profligate scale; whereas this is being fought as a poor man's war, with a close watch on costs, with a careful husbanding of resources, with tighter centralized controls from the start than the World War saw at its finish. Finally, our trade with virtually all of the European continent — neutral and belligerent — has been cut off by the British blockade.

We can only conclude that, so far as this country is concerned, the threat of war-born inflation looks pretty feeble. This is not to say that our price level can not rise under any conceivable circumstances. When armament activity, superimposed on civilian needs, eventually begins to crowd our industrial capacity, a partial recovery or rally in prices probably will be seen. The same would be true if we get into the war.

But from the present perspective the wholesale price peak of 1937, 14% above the existing level, looks like a very formidable figure. Should we eventually creep back that far in price level, few people would regard it as "inflation" and still fewer would write and ask us what they should do to "protect" themselves.

Timing the Armament Boom

(*Continued from page* 610)

fiscal year. It may readily prove to be much too high. Some skeptics—and they can't for the present be proven wrong—insist $3,500,000,000 would be a better guess. If so, it is possible to argue that cash deficit spending this year may be only modestly more than it was last year—despite the armaments furore—and therefore that the gain in direct business stimulus deriving from Federal deficit money may be relatively mild.

Any effort, however, to time the armament boom solely from the approach of Treasury spending, or contracts let, can go badly wrong. For practical purposes, in the writer's view, no distinction can be made between money spent by the Government for airplanes and money spent by private manufacturers to enlarge facilities in anticipation of future Government contracts. Both are part of the story. Nor is that all. Anticipation of the medium-term and long-term effects of the armament activity has already brought increases in various types of private spending that have no direct relationship to Government orders or to expectation of getting such orders later. For example, a manufacturer

serving only a civilian market buys additional machines because (1) he expects armament activity indirectly to increase the purchasing power of his customers and (2) because he figures that machinery makers may be turning away civilian orders before long. On similar reasoning, a great chain store enterprise decides to double the number of stores listed for expansion and modernization projects over the next year.

The economic activity of this great and enormously diverse country of 132,000,000 people can not be segregated by types into tight compartments. Nobody can say the economic boundaries of the automobile industry are precisely thus and so or that just beyond them begins the activity created by the steel industry or that over here in this particular area the employment and the income are earmarked as coming from the electric equipment industry.

Nor can anyone distinguish between two $5 bills, one of which began its wanderings as a crisp new note out of the pay envelope of a mechanic in a Government arsenal, while the other began its journey out of the pay envelope of a haberdasher's clerk in Peoria. Both are capable of doing the same work.

Over the past several months industrial production has been at a level above the average of both 1937 and 1929, measured by the revised index of the Federal Reserve Board. It is the virtually unanimous view of economists and business analysts that the major industrial trend, regardless of monthly or quarterly irregularities, is upward.

When will the armament boom begin? Think over the significance of the two sentences in the preceding paragraph:—a production level now above the average of 1929 and a major uptrend indicated therefrom. In short, the armament boom has already begun, financed preponderantly by private money. What you really want to know is when will begin the second phase of it—the phase of large scale production of armaments, as distinct from preparation for production; the phase of really lavish deficit spending. Answer: probably within the second half of next year. The interval will be spent in moving gradually from this first phase to the second, with no clear-cut dividing line recognizable in any week or any month.

Great Northern

(*Continued from page 623*)

only been covered by a substantial margin but in each year, except the subnormal 1938, earnings per share have been well in excess of $2.88 reported in 1935. Even in 1938 the $1.09 a share earned on the capital stock was much better than that reported for the great majority of class 1 roads, as also were 1939 earnings of $3.48 a share.

Due to the sharply seasonal nature of the road's business, the first half year results are invariably the poorest of the two. It is customary to report a deficit after all charges and the first six months of the current year have been no exception to the rule. However, in this period the road covered all but 9 per cent of its fixed charges as compared with a deficit of 48 per cent in the previous year. On a 12 month basis, however, fixed charges for the period ended June 30 were covered 1.81 times as compared with 1.45 times for the same period of a year ago and earnings per share of capital stock were indicated to have been $4.58 as compared with $2.56 a year before. Should this earnings trend continue through the balance of the year, it is likely that the road will not only exceed 1937 peak earnings by a fair margin but will also closely approach 1930 results when $7.25 a share was reported.

Approximately 20 per cent of Great Northern's total income accrues from investments in stocks and bonds and the principal investment is the block of C. B. & Q. stock. While the C. B. & Q. has not been doing quite as well as Great Northern this year, there is no doubt but that it will do at least as well as last year and thus continue its contribution to earnings which amounts to approximately $0.65 a share of Great Northern stock.

Great Northern Railway is one of the few roads that has been able to maintain a strong financial position throughout the depression. As of May 31, 1940, the balance sheet showed the company's current assets to be about $38,766,000 as com-

Forthcoming Dividend Meetings

Company	Time	Date
Addressograph-Multigraph	11:00	9/10
Air Reduction	9:15	9/11
Bon Ami "A" and "B"	12:00	9/19
Detroit Edison	2:00	9/10
Electric Storage Battery com. & pfd	3:00	9/13
Fireman's Fund Insurance	2:00	9/19
General Electric	9:30	9/13
Hecker Products	9:30	9/25
Hershey Chocolate com. & pfd	2:00	9/24
Kendall Refining	1:30	9/17
Link Belt, com. & pfd	10:00	9/24
Mass. Investors Trust	2:00	9/18
McCrory Stores 6% pfd	2:30	9/26
National Distillers	11:15	9/26
Philip Morris com. & pfd	3:30	9/19
Procter & Gamble 8% pfd	1:45	9/10
Public Service of N. J. 6% pfd	3:00	9/17
Royal Typewriter com. & pfd	4:00	9/25
Southern California Edison	12:30	9/27
Travelers Insurance	12:00	9/16
Union Oil of California	10:00	9/23

All meetings are on common stocks unless otherwise specified.

pared with approximately $32,811,000 on the same date of 1939 and current liabilities on that date were $13,843,000 for 1940 and $20,169,000 for 1939. Cash and cash items on May 31 last, amounted to $21,271,000 as compared with $16,990,000 a year before and loans payable were completely liquidated as compared with $7,000,000 a year ago. Since then, refinancing has somewhat reduced cash items but it has also taken care of a good part of the $28,440,000 long term debt that was approaching maturity.

Prior to the depression, the road was a fairly consistant dividend payer although the amounts of the payments varied sharply. Due to depression losses, dividends on the capital stock were suspended in 1932 and were not resumed until 1937 when earnings of $4.04 a share of stock warranted a $2 dividend disbursement. Although 1938 and 1939 were profitable years, the directors preferred to apply earnings to strengthening the road's financial position through elimination of debts. Accordingly, no dividends were paid in either of those years. Now that earlier contemplated financing is out of the way and there is likely to be no heavy demand for funds for the next several years, it is probable that dividends will again be restored and the total payments are likely to be equal to at least the amount disbursed in 1937. Resumption of dividend payments would add much to the inherent attractiveness of the capital stock and would materially assist bond conversion and marketability.

While the market price of the capital stock does not appear fully to recognize the earnings and dividend possibilities of the company, the shares have nevertheless made a better than average showing for a railroad equity. Prevailing prices for the shares are approximately half way between the year's high of 28⅞ and the year's low of 15¼. In 1937 the shares reached a high of 56¾ and a subsequent low of 12⅜ in the next year. There is no reason to suppose that the stock should again touch that low level unless something occurs more calamitous than recent happenings. Selling at less than 5 times estimated earnings for a price that may soon yield a high rate of dividend income, the shares appear to contain considerable merit for eventual capital appreciation.

The proposed changes in taxes will not affect Great Northern's earnings. Figured on the lowest available basis —Credit on Basis of Invested Capital — this year's expected earnings would leave nothing upon which to base an excess profits tax.

As I See It!

(Continued from page 605)

attacked from the rear. Other French colonies probably will decide to rejoin the war against the Axis; and there are reports of an army of some 350,000 trained men moving up from south Africa to attack the Italians in Ethiopia after the rains are over.

The Nazi setback has given pause to Spain's Franco and we no longer hear of threats of a Spanish assault on Gibralter. Instead, there is at least some evidence of an amicable arrangement between Spain and Britain.

The best gauge of Germany's position is Russia's reaction; and the sneering Communist press is maliciously and gleefully calling attention to the failure of German efforts in the trans-channel campaign, as well as expressing open skepticism regarding the threatened German invasion of England with land forces.

Stalin has been quick to grasp at this definite development of Nazi weakness and the flare-up in the Balkans evidently has been manipulated by Russia, with the bad feeling between Stalin and Hitler emphasized by the significant absence of Russia at the conference where Ribbentrop and Ciano are attempting to work out an adjustment between Roumania and Hungary.

War in the Balkans would be accompanied by dire consequences for Hitler since it would interfere with, or even cause a stoppage of, his supply of Roumanian oil. In that case the mechanized blitzkrieg would be over—and Nazi greediness and race intolerance will have been responsible for the downfall.

Conflict of aims and ambitions between the Nazis and Communists is not confined to Europe. I have my doubts, for instance, whether

Trotsky was murdered in Mexico at the instigation of Stalin, as is widely assumed. Both the Communists and Nazis are well organized in Mexico and competing with each other for that country's eventual control. Trotsky's death eliminates a potential leader of Mexican Communism whose revolutionary organizing abilities have been well demonstrated. The Nazis could have wished it.

We may yet see Stalin and Hitler come to open grips. Heretofore it has been reasoned that Russia's turn would come after England has been disposed of. But if England can not be conquered—and each passing week increases the odds in her favor—Hitler may well turn east, forced after all to risk war on two flanks.

All in all, we can be a bit more hopeful as the Battle of England continues—but the next few weeks will be decisive.

Future Retail Spending by Zones

(*Continued from page 621*)

more restricted in selling territory for its efforts are confined to the city of Chicago and three adjacent suburban towns. However, with Chicago the hub of the mid-western agricultural and industrial area, consumer buying power among Marshall Field's customers is likely to show a much greater early improvement than in New York City and as a result it is probable that Marshall Field will continue the gains made last year.

Arnold Constable Corp. is perhaps the best example of a large store serving but one metropolitan area. In addition to the New York store the company has two branch stores located within a few miles of the city in two suburban towns. The store furthermore emphasizes apparel, mostly style merchandise, and is therefore dependent on the relative prosperity of the upper income brackets consumer for its business. Such an organization would benefit only moderately from any increase in the income of the industrial worker, although over the longer term better industrial worker income will eventually find reflection in better incomes for the group from which the stores' principal customers are drawn.

To summarize, the greatest gains in retail sales are likely to accrue to those districts that will be active in the manufacture of machinery, machine tools, airplanes, steel, brass and other capital goods. Some improvement in consumer income and therefore retail sales will be found in part of the purely agricultural districts, especially those specializing in food animals, dairy products and canning crops. Those districts that depend almost completely upon wheat, cotton and tobacco for income will find their purchasing power increased but little and therefore no sizable gains in retail sales in their respective territories can be expected.

Today's Opportunities in Bonds and Preferreds

(*Continued from page 617*)

generally rising activity.

Three of the issues listed are selling slightly above their call prices and one just about at that point. It is probable for the near future at least that any calls for redemption would actually be made for the purpose of inducing conversion into common stock. This could be done only if the stock were high enough to make it attractive, and therefore the risk of paying a few points more than the call price is moderate. However, it might not be wise to pursue any of these issues much further above their call prices except as a speculation on the common stocks represented.

The superiority of common stocks as trading vehicles for most speculators cannot be denied; yet today's changing conditions make it necessary to look around at the other possibilities among the same companies. In many cases it will be found that the common stock has lost part of an advantage but that the market has not so far discounted the change by price adjustments between the issues.

Answers to Inquiries

(*Continued from page 640*)

ably continue to be stable and this Government's silver purchase policy will continue to benefit the company so long as this policy is continued. While a lower United States tariff on copper is not in sight at this time, it is conceivable that demand for the metal as a result of generally better business conditions and the necessities of the rearmament program may raise the price of copper sufficiently to enable this company to overcome the tariff barrier. In the first quarter of the current year, it was officially stated that profits of the concern were equal to $1.63 per share which would compare with $1.22 per share in the corresponding period of the year before, but events since that time, as well as the outlook now, do not indicate any improvement over the 1939 profit of $2.27 per share. However, from the longer term viewpoint, a more optimistic attitude can be taken toward this company. Cerro de Pasco has the advantage of low cost production, ore is of high grade and the mine is believed to have a long life. In addition, European competition in South American countries will be less severe. Finances continue to be very sound, the balance sheet as of December 31, 1939, disclosing working capital of $23,058,409, with cash and high grade securities well in excess of total current liabilities. The current ratio was approximately 9.2 to 1. It is believed that dividend payments for the time being will continue at the regular $4 annual rate but this rate obviously cannot be considered secure until earnings can be restored to a more satisfactory level. In consideration of the severe price declines which have already taken place as well as the probable improvement which would be shown upon a return of world trade to more normal conditions, we feel that retention of your commitment for the time being would be the advisable course to follow, though considerable patience may have to be shown.

American Zinc, Lead & Smelting

Despite first half earnings of American Zinc, Lead & Smelting reported at almost four times the same 1939 period, the common shares continue to hover close to their lows for 1940. Can you account for this sluggishness? Has the zinc industry succeeded in inducing the State Department to restore the tariff reduction? What would this mean to American Zinc's 1940 sales and earnings? Is this company likely to benefit directly or indirectly from our defense program? How large is its lead output? I own 300 shares at 9¼.—P. N. T., Elkhart ,Ind.

American Zinc, Lead & Smelting produces only small amounts of zinc and little or no lead or silver. The concern purchases most of its materials for production at its zinc smelting and oxide plants at East St. Louis, Mo., Hillsboro, Ill., and Columbus, Ohio. In addition to zinc and zinc oxide, the company also produces sulphuric acid, cadmium and certain other by-products. Zinc prices over coming months are likely to be stable, but fluctuations in zinc prices are of little importance to the company inasmuch as most materials are purchased. Operations in the first half of the current year were at good levels and profits were equal to 12 cents per share which compared with a deficit of 13 cents per share in the similar interval of last year. While export business of the company has been hurt by the defeat of France as well as by the British blockade, domestic sales should hold at good levels over coming months and thus it is expected that moderate earnings on the common stock will be seen for the full year. There has been no recent reduction in the tariff on zinc. The company will doubtless indirectly benefit to a certain degree from the current arms program. Finances continue satisfactory, the balance sheet as of December 31, 1939, disclosing current assets of $3,609,823 as against current liabilities of $1,304,368. There have been no common stock dividends since 1917 and early distributions are unlikely, since there are moderate arrears on the preferred. The earnings record of the company has been rather unsatisfactory in that deficit operations have been reported on the common stock for all years since 1919 with

DIVIDENDS RECENTLY DECLARED

Company	Amount	Rate	Record Date	Date Payable
American Hawaiian S. S	.25	Q	9/16	9/30
American Hawaiian S. S., extra	.25	——	9/16	9/30
American Tobacco pfd	1.50	Q	9/10	10/ 1
American Safety Razor	.20	Q	9/10	9/30
Black & Decker	.25	Q	9/10	9/20
Black & Decker, extra	.25	——	9/10	9/20
Bohn Aluminum & Brass	.50	——	9/13	10/ 1
Clark Equipment	.75	——	8/29	9/16
Commercial Credit	.75	Q	9/10	9/30
Dome Mines	.50	——	9/30	10/21
du Pont	1.75	——	8/26	9/14
Eastman Kodak	1.50	Q	9/ 5	10/ 1
Ex-Cell-O	.65	——	9/10	10/ 1
Federal Mining & Smelting	.50	——	9/ 3	9/20
General Motors	1.00	——	8/15	9/12
Gulf Oil	.25	Q	9/13	10/ 1
Hercules Powder	.60	——	9/13	9/25
Holland Furnace	.50	——	9/13	10/ 1
International Harvester	.40	Q	9/20	10/15
Johns-Manville	.75	——	9/10	9/24

Company	Amount	Rate	Record Date	Date Payable
Kimberly-Clark	.25	Q	9/12	10/ 1
Kimberly-Clark, extra	.25	——	9/12	10/ 1
Liquid Carbonic	.25	Q	9/11	9/26
Mathieson Alkali	.37½	——	9/ 9	9/30
Midland Steel Products	.50	——	9/13	10/ 1
National Dairy Products	.20	Q	9/ 4	10/ 1
Paraffine Cos	.50	——	9/10	9/27
Pet Milk	.25	Q	9/10	10/ 1
Quaker Oats	1.25	Q	9/ 3	9/25
St. Joseph Lead	.50	——	9/ 6	9/20
Standard Oil of Ohio	.25	Q	8/31	9/14
Texas Corp	.50	Q	9/ 6	10/ 1
Timken Roller Bearing	.75	——	8/16	9/ 5
Underwood Elliott Fisher	.50	Q	9/12	9/30
Union Tank Car	.45	Q	8/16	9/ 3
Youngstown Sheet & Tube	.25	——	9/14	10/ 1

All declarations are common stocks unless otherwise specified.
Q—Quarterly.

the exception of 1929, when a small profit was shown. However, since demand is likely to be at relatively good rates over coming months and indications point toward a small profit for the current year, retention of moderate commitments as a price speculation appears to be the advisable course to follow.

Carrier Corp.

How would you explain Carrier Corp. shares being quoted at 6-7 points below their 1940 high, while per-share earnings for six months ending June 30 were almost double the 1939 period and Adjustable Stock Ratings reports that orders are above a year ago? As a subscriber of many years standing, may I ask your recommendation now on 250 shares at 18⅛? I wonder if the present level is due to the fact that many investors believe air-conditioning sales will falter as defense preparations get well under way. What is the outlook for low-priced unit sales?—G. D. U., Kansas City, Mo.

Carrier Corp. is one of the foremost companies engaged in the manufacture and installation of air-cooling, air-heating and air-handling equipment, the bulk of installations being for industrial concerns. Its largest markets are office buildings, stores, railroad cars, restaurants, theatres and hospitals. Next in importance in point of sales are those industries where manufacturing processes necessitate or would be helped by control of temperature, such as the rubber, oil, textile, explosive and chemical industries. The next in importance is the manufacture of smaller air-conditioning units for homes. Competition in this division is, however, very keen and profit margins are not as wide as on the first two mentioned. It is obvious, therefore, that profits will depend mainly on the rate of activity in the heavy industries and installations of a large-scale nature. Earnings in the first half of the current year recorded a good rate of improvement, profits being equal to 71 cents per share on the common stock, against 35 cents per share in the corresponding period of last year. Unfilled orders of the company as of June 30, 1940, amounted to $4,504,023, up some 37% over orders on the books a year earlier. While second-half operations are usually not as profitable as the first half, it is expected that results for the full year will be considerably better than the 5 cents per share reported for 1939. Finances continue to be quite satisfactory, current assets on June 30th this year totaling $5,065,678, as against current liabilities of $1,344,298. Capitalization is simple, consisting of $2,420,000 of 4½% debentures followed by 390,808 shares of capital stock. Dividends have not as yet been paid on the common and early distributions do not appear to be likely. While the issue has been rather colorless lately, in line with the market as a whole, the growth possibilities of the industry are promising and the position of the subject concern leads us to believe that it will obtain its full share of business in the future. Accordingly, we are inclined to recommend longer term retention of your holdings.

A. G. Spalding & Bros.

Do you think A. G. Spalding common stock might soon reach 3½ level at which I purchased 200 shares? I understand that sales have been holding up well and that profit margins are substantial. Does the company show any inventory losses on outmoded equipment? Now that we are entering the season when sales of Spalding sporting goods supplies are normally heavy, do you think I should average up at present levels? I would like to know your opinion of the stock's outlook.—F. H. J., Binghamton, N. Y.

A. G. Spalding & Bros. is the leading manufacturer and distributor of athletic equipment, products being sold in the United States, England, Australia and other foreign countries. Distribution is effected through forty district and local wholesale branches, in addition to ten retail stores. About 70% of total sales volume is accounted for by the company's own manufactured lines. Competition is, of course, very keen, which tends to limit profit margins but sales have been holding up relatively well and doubtless will continue to over coming months in line with generally improved purchasing power. Foreign sales will, however, be adversely affected by war conditions abroad. However, it is expected that profits for the fiscal year to end October 31, 1940, will be at least moderately better than the $168,368 net income reported for the preceding fiscal term. Finances continue to be quite sound, the latest balance sheet disclosing a current ratio of about 9.6 to 1 and cash alone of $1,168,668 was in excess of total current liabilities of $672,353. Early distributions on the common stock are not looked for. The shares must be regarded as somewhat

BOOKS...

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JOHN F. KENNEDY.
Wilfred Funk $2.00

Since the leaders of democratic countries carry out the wishes of their electorate, Mr. Kennedy excuses the British cabinet of entire blame and gives the reasons for England's lack of preparedness and inability to fight at the time of the Munich Pact. A clear and well presented account of Britain's slow and gradual awakening to the necessity of rearmament and new theories of warfare.

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IDLE MONEY, IDLE MEN
STUART CHASE.
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A fresh approach to a better understanding of the new economic order which has closed in on us since 1929. Mr. Chase unravels and simplifies the complex factors which have been at work—the implications of idle capital and workers, old age pensions, saturated markets, falling population curves, etc. This study provides the present generation with a more realistic picture of the facts rather than a rehash of the old formulas.

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REAL DANGER IN OUR GOLD
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With the increasing importance Canada is gradually attaining in the British Empire as a result of the present European conflict, the United States must now reconsider the American policy as stated in the Monroe Doctrine. Political, economic, and national differences of the two neighbors are compared and analyzed.

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CARL SNYDER
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The former statistician of the New York Federal Reserve Bank comes to the defense of capitalism and the part it has played in man's progress during the centuries.. Also gives causes and means of avoiding depressions. 44 charts give picture of economic progress over the past 150 years.

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These books may be ordered from The Magazine of Wall Street book department.

speculative, but in consideration of some probable improvement in earnings over coming months, we feel that commitments made on that basis may be retained for the present, although we do not believe that additional purchases would be warranted.

New Records for Copperweld Steel

(*Continued from page* 627)

outstanding has been increased by the recent public offering of 75,000 shares. The preferred stock being convertible into common at varying rates until 1948, may increase the amount of the junior equity outstanding in the meantime, but even were the preferred shares fully converted now, the increase would not exceed 139,000 shares or approximately 25%, while at the same time such conversion would eliminate $125,000 in prior charges and thus increase the amount of net income available for the enlarged common stock by the same amount. Up until now, 3,634 shares of preferred have been converted or retired.

In addition to the preferred and common stock mentioned above there are outstanding $2,000,000 of 4½%, first mortgage bonds due in 1954. A sinking fund of $100,000 yearly—to which will be added 10% of annual net income after 1939—is expected to retire the issue by maturity. A $500,000 bank loan made earlier this year has since been retired through the proceeds of the recent stock sale and the balance left over after liquidating the loan has been added to working capital.

At the close of 1939, the company was in a sound financial position which has since been improved by the financing previously commented upon. At the year end, current assets of $6,959,871 were more than 3 times larger than total current liabilities. Cash and marketable securities which were shown at nearly $3,050,000 on that date were themselves well in excess of total current liabilities of $1,883,054. However, a substantial part of this cash represented funds which were raised in connection with the construction of the company's new steel plant. Inventories, of which more than half were raw materials, totalled $2,226,164, and while moderately above those of the previous year, were not considered to be excessively high.

Increased efficiency in operations and higher output have expanded operating profits from 10.3% in 1937 to 11.6% in 1939. The ability to manufacture its own alloyed steel requirements should result in a further spread in profits since any increase in raw material prices will reflect even more sharply in the selling prices of competitive materials. Constant decreases in fixed charge costs through intelligent refinancing and the elimination of non-recurring charges for experimental and development expenses should further add to earnings available for the common stock.

For the first six months of 1940, the company reported net income of $521,314, as compared with $391,420. Earnings per share were, respectively, $1.05 and 91 cents for the 1940 and 1939 periods on a similar number of shares. Second half earnings should include some additional income from the Steel Division operations with the result that the full year's earnings will probably exceed the $2.05 reported for the shares outstanding at last year's end by a comfortable margin, and will most likely establish another new high record.

In previous years, dividends on the common stock have been satisfactory, although in 1939 the directors apparently decided to conserve some income for expansion and debt paying purposes. As a result common dividends were only 80 cents a share, as compared with earnings $1.25 greater than the disbursement. Since the beginning of the year the company has maintained the 80-cent annual rate with 3 quarterly payments of 20 cents a share. Even if not increased, the present dividend rate offers an attractive return of close to 5% at current market prices for the shares and offers some compensation for the fact that market recognition of the virtues of the company must await better investor sentiment and stronger security demand.

During the past several years the shares have made a better-than-average market showing by being able to advance substantially more than the general list, while losing only moderately more than the average on declines. A brief flurry in the shares earlier in this year carried the market price well above 25, although it has since reacted about 30% from the highest level. Since the time that the stock made its 1940 high—which incidentally was a new high since 1929, allowing for the increase in the number of shares outstanding at this time—the company's prospects have made further changes for the better which should, given a favorable trend in the general market, permit the shares again to test their previous high levels.

For Profit and Income

(*Continued from page* 625)

franc and the pound are dangerous things to hold—that their value a year from now is anybody's guess. Owning stocks, the English or French investors at least have some tangibles, and they must take a chance on the bombs.

Fortunately neither the bombs nor the dreaded inflation of currency are factors in the stock market here. Prices may be low or they may be high; but they're not riddled with fear.

Rail Equipment

Class I railroads have on order more than twice as many freight cars as a year ago and 50% more locomotives. In 1939 most of the buying came in the last three months, but from now on a fairly steady stream is expected, with freight cars making a slightly better relative showing than locomotives. Both categories should show improvement over 1939, and the large makers are receiving a growing amount of armament business which bolsters their operating schedules. **Baldwin Locomotive**, for example, almost doubled its rate of shipments for the first seven months of this year. The company's profits in the twelve months ended June 30th were equal to $1.55 a share on the common, and for the twelve months ended March 30th (not the March quarter as erroneously stated in our July 27th issue) were $1.25 a share. **American Car & Fuondry** has so far been the biggest recipient of new Government orders, with Baldwin's Midvale continuing its ordnance work.

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